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VOL. VI, No. 3 JULY 1938

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• With the Editors •

THE CULTURAL LAG

INSTITUTIONAL changes are always overdue or, to use a current sociological phrase, there is a cultural lag. The growth of custom follows after the facts of experience which gives rise to it. This principle is exemplified in appraisal practice which predicated value upon cost for more than fifty years after the enunciation and acceptance of the theory that value arises because of productivity.

Although sociology has taught that economics is that science which treats phenomena from the standpoint of price and which has become less of a system of pecuniary logic and more of a science of human behavior, still these thoughts are yet in an incipient state in the minds of appraisers. Here, however, the lag is not so great.

For years after the warrant for the theory ceased to exist, real estate was appraised as an entity as though separate and apart from the rest of the city or the nation. Even in this enlightened day, the practice is still followed, notwithstanding the knowledge that all business enterprises are so bound to each other by industrial, commercial, and financial ties that none can prosper and none can suffer without affecting others.

We have long known that the value of sugar-beet lands is dependent upon tariff policies; that the value of wheat lands in Montana is appreciably affected by conditions in Russia and other wheat exporting countries; that the value of income properties in any city is affected by governmental financial policies through the capitalization rate; and that the value of residential properties are affected by relative employment and wage levels.

Not long ago it was heard, "The operation was a success, but the patient died." The appendectomy was a success, but the heart failed to survive the shock of the operation. Anatomically, this illustrates the interdependence of all parts of the human body. We cannot isolate the heart and treat it as though it possessed an identity separate and apart from the rest of the body; nor can we evaluate the left hind leg of a race horse separately from the rest of the animal.

By a similar line of reasoning, we cannot evaluate real estate as though it were separate and apart from the entire economic structure. That which affects one form of wealth will inevitably affect other forms of wealth. This leads to a pertinent question, particularly so in these times of rapid economic changes and social adjustments. What effect will governmental policies as expressed through the Federal Housing Administration have upon the value of real estate?

Is it reasonable to assume that the policy of insuring 90 per cent loans will depreciate the value of older residential properties? If so, is it not then reasonable to assume that the lowering in the value of older houses will drag down the value of the newer houses in the inevitable adjustment of values? Is it reasonable to assume that this same liberal lending policy will tend to lower the values of apartment houses and ultimately the values of all forms of real estate? These are timely questions. What value changes are foreshadowed?

Time will tell, but the appraiser cannot wait. He must express his opinion now. At this time he has a greater need for knowledge than ever before. He is hard-put to keep abreast of the times and not to suffer by permitting a cultural lag to put him "behind the eight ball."

Never before, in the history of the present generation, have social and economic adjustments taken place with such rapidity; and never before has there been the need for such a high order of intelligence in appraisers. The myriad-fold innovations encompassed with contradictions and confused thoughts arouse various trains of reflection. The limits of allowable error are small. The challenge is made. Will we think in terms of conditions of 1928 or 1938? What holds the future? Appraisers, take heed.

* * *

VALUE—A FORECAST

NOT long ago a well-known appraiser was severely criticized for considering what might happen within five years in a certain apartment district. It was said that he should have taken into consideration market value today and not market value five years from now. When a purchaser goes in to buy a piece of property, he buys it for the future and not for the past, although he is influenced by sales and operations of this particular piece of property or other similar properties in making his estimate of its future productivity.

The appraiser is not a forecaster in the sense that stock market tipsters "forecast" future prices; however, he is a forecaster in the sense that he takes into consideration the productivity of a piece of property in the immediate future. This does not mean that he makes up tables of rental incomes expected in the future. Any such figures are likely to be highly conjectural except in the case of definite lease provisions. However, if an appraiser feels that an apartment house may have a $3,500 a month gross income today but that rents in the area are more likely to have a downward than an upward trend, he should take it into consideration by establishing a rent which, in his opinion, will prevail over a reasonable length of time.

We all know that as a property is depreciated a smaller amount of capital remains in it and that, therefore, even with the same rate of interest a smaller net income may be expected year by year; this is logical. Although the aggregate dollar value of the property probably is decreasing as time goes on, nevertheless, each dollar invested should be earning a satisfactory return.

Taking these things into consideration does not mean that we are making a forecast. It simply means that we are considering those things which would be weighed in the mind of the prospective buyer and in the mind of the prospective seller.

* * *

CLEARING THE WAY FOR "SLUM CLEARANCE"

THIS is a mechanical age. Machines are being invented and developed to perform almost every kind of operation far more rapidly than hand labor and at a fraction of the cost. America is, in fact, obsessed with a mania for things mechanical—especially if there is an element of gambling involved; hence, the tremendous business in slot machines, marble games, and gadgets of every kind with pegs, springs, and balls that clutter up the lobbies of hotels and other public places. It appears to be our largest current "racket."

Perhaps in line with the present psychology the principle seems to have been accepted by the Federal government for application in the appraisal field. Take this "slum clearance" thing, for example. Before a selected site for a project can be cleared, the properties in the area must be appraised. Judging by the standards set up by the United States Housing Authority, this agency believes that these appraisals can be produced in quantity by simply turning a crank—the machine being set at about $5.00 per.

In an actual case recently reported from a southern city, two projects are under way—one for white occupancy and one for colored. The first project covers some 240 parcels under separate ownership with about 450 separate structures on the land—comprising a public school building, a new factory, a hospital, a multi-structure asylum, garages, commercial buildings, and numerous residences. The other project includes over 150 parcels improved with about 300 rental units, a school, two churches, a modern theatre, oil stations, and other special structures. Both projects represent involved layouts with odd-shaped parcels, encroachments, alleys, and similar complexities found in such neighborhoods. A fee of $3,000 per project was offered to two real estate brokers for the property appraisals, that is, $1,500 to each broker. This represents a fee of $5.00 or less per main rental or building unit.

Now, of course, it is utterly ridiculous to expect any intelligent value estimates at such fees. No competent or reputable appraiser would undertake such an engagement. Certainly he could not hope to render an honest professional service unless he were motivated by a spirit of philanthrophy—and the odds in this respect are too remote to be worthy of consideration. The answer is obvious and could be given by any ten-year-old schoolboy.

The reason for the Housing Authority's policy is not so obvious. In fact, it is incomprehensible. Either these properties **should** be appraised—or they **should not** be appraised. If they should, then the job ought to be executed properly by competent appraisers at fair fees. If not, then why camouflage the thing? Just add up the assessed values or take a "shot in the air" in some other arbitrary manner—and let it go at that.

Millions of dollars of the taxpayers' money each year have been going into the development of more and more systems and techniques for almost everything under the sun, including comprehensive appraisal forms and methods. Some of the agencies are building up large appraisal staffs, claiming that this is the only way they can get competent appraisals—that the private appraiser cannot properly meet the standards of quality demanded. Are we to believe that government employees can do so at $5.00 a throw? We think not!

It is high time that this entire Federal appraisal situation be brought out in the open where all may read about it and understand it. Sound housing development must be built on sound valuation. The proper appraisal of the type of properties usually found in areas considered for slum clearance is one of the toughest assignments any appraiser can undertake. Naturally, it is a job for the man who knows—the appraiser who is equipped by training and experience—who has demonstrated his professional standing and integrity. And he is rightfully entitled to a fair and adequate fee commensurate with the character of work involved.

* * *

VALUE BY COMPARISON

WHEN business property is active in the real estate market, appraisers are likely to put too much emphasis upon value by comparison. If the Smith Chain Store signs a lease at $10.00 per front foot per month and the Jones Credit Jewelers move in next door, some appraisers feel that the stabilized value of this property should be based upon this $10.00 figure although other merchants in the area may not be doing enough business to justify a rental of more than $7.00 or $8.00 per front foot per month. Very frequently there are concessions or special provisions in such high rental leases which would make them altogether inoperative at any time the lessee might choose to take advantage of the contract.

The landlord enters into the lease, having confidence in the paying ability and merchandising capacity of a particular store or a particular type of retail establishment. He feels that he can well afford to make liberal lease concessions to get a chain tenant even though the chain itself may not be particularly strong. In most instances the owner of the land knows he is gambling, and, the higher the stakes, the more he is willing to gamble. Ten years ago they were doing the same thing, and we all recall the results. It is astonishing the great number of 1928 chains which are either gone today or which, although they bear the same name that they did then, have undergone reorganization which meant cancellation of old leases.

Value by comparison is a valuable technique in the hands of the appraiser, but it does not indicate the way toward the most essential foundation necessary in order to develop a sound value. Above everything else, the capacity of a piece of real estate to earn an income must be our guide. This figure must be the maximum which an appraiser can assign as the value of a property except in isolated cases where good reasons for increased values may not be clearly shown. Too often in fixing value by comparison we find ourselves trying to pull ourselves up by our own bootstraps.

* * *

THE "HORSEBACK" APPRAISER

THE "horseback" appraiser! Out of the recesses of his mysterious mind, and presumably out of the depths of a long and successful experience, a judgment of value is formed and expressed with an air of indisputable finality. Investigators of this occult process say that some of those who practice this mysticism are convinced that values are determined by this final expres-

sion of theirs. Fortunately, however, the devotees of this cult are fast yielding to the scythe of Father Time, going the way of the famous dodo bird.

Theirs is the only process which requires no data. Initiation into the cult was obtained by a process of apprenticeship to one of its high priests. Through long years of association with the supernatural powers of this high priest, the novitiate gradually came to vest himself with the same quality of magical powers and eventually came himself to perform the rites and pronounce the hocus-pocus which rendered his decisions final and immutable.

There still survives some members of this cult though time has decimated the ranks. Their powers are sacrosanct, and their final pronouncements are not subject to question. The inquirer is silenced with the magic content of rites which have been evolved over the decades. The precise content of the rite has never been discovered, but the words used in expressing final excommunication of the inquirer sound somewhat like these, "That is my opinion." This formula has been found to be almost magical in its effect upon the inquirer. He is silenced and made to feel guilty of "lese majesty." (Apology to Dr. Ernest M. Fisher.)

According to Webster, an opinion is a notion or conviction founded on probable evidence. To form an opinion without probable evidence (the data) is a guess, a conjecture, or the formation of an opinion without knowledge or means of knowledge.

Perhaps the greatest advance made in appraisal technique is due to the introduction of data into the appraisal process—concrete factual data out of which the conclusion of value is derived. This one step has changed appraising from the status of "horseback guessing," which is no more than an impression, to a belief which is stronger than an impression and founded on probable evidence.

Need more be said?

* * *

EDUCATION

EACH year we are more convinced that there is a definite and fundamental body of knowledge which the appraiser must have at his command. Institutions requiring the services of appraisers are demanding the exercise of more precise techniques than ever before. Each of us in order to maintain a reasonable standing in our profession must continue his education day by day. There are comparatively few journals and publications exclusively devoted to our field. These should be carefully studied by each one of us, not only because they provide information, but because they stimulate critical thought which may lead to important developments in appraisal practice.

Each Chapter of the Institute should take upon itself the obligation of disseminating among its own members the latest developments in appraisal practice. But more than that, the Chapter meetings might well include the reading of carefully developed papers, many of which could be published in the JOURNAL but all of which should be on file in our headquarters library. Too often our educational program is assumed to be restricted to the education of others. For the time being, at least, our most valuable educational activities would be the education of ourselves.

Because there are so few publications in the appraisal field does not mean that we lack knowledge. It may indicate, however, that what knowledge we have is poorly organized.

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Population

Population Analysis and Population Trends

By WALLACE W. TRUE, M.A.I.

IN the last fifty years there has come into being a science known as human geography, and closely associated with it is a slightly younger branch, a combination of ecology and economics, known as population studies. Human geography, in its broadest sense, of course, is a sister of physical geography and is concerned with those conditions and effects caused by the location of human beings on the face of the earth. It follows the migrations of people and studies the effects of soil and drainage and climate and the navigability of streams and the relations of gateways through mountain ranges to spots desirable from numerous points of view. Human geography analyzes the attraction which minerals, fisheries, or fertile valleys have for particular peoples and, of course, takes into account the trend of economic policy and the development of ideas on the nature of wealth and the things for which people are prepared to strive if possessed with reasonable freedom to carry on independent economic pursuits.It tries to gather systematically and patiently the data upon the basis of which, in some future day, inclusive and valuable formulae will be worked out to explain why great metropolitan areas grew up at some particular place, why crossroads were converted into points of great importance, and why a tradition of continuity was consciously or unconsciously developed in a locality which acquired in the course of time a cultural atmosphere and a distinctive sense of common interest and thus created what we know as a homogeneous community.

Population studies, as a branch of the science of human geography, are concerned with the biological reasons for variations in the rate of growth of people in a given area and for given units of time. Students of population movements are concerned with the distribution of the population in age groups and in particular fields of endeavor. They are called upon to study and to determine the effect on population groupings of immigration, emigration, economic factors, and, in brief, the impact or lack thereof of the interplay of almost every social force. In connection with the study of immigration and emigration, consideration must be given to the exhaustion or replenishment of the elements contributing most to the nonproductive stability of the population.

There is little doubt that it will be years before human geography and the studies of population will be able to furnish a set of basic principles with which those who enter the real estate business with the hope of success will have to be fully familiar. But even now there is much that

can be learned from these sciences, and it is certain that a good many of those who are outstanding in the work of developing communities in this country have drawn much from the accumulated wisdom of these two related fields of scientific research.

Some of the most progressive and interesting activities in the field of community expansion and development under adequate control seem to rest upon a secure knowledge of the principles of city organization and development as worked out by students of human geography. On the other hand, some of the activities of developers and others, when studied from their effect on existing facilities and services in the municipality, seem to indicate a woeful ignorance of the first principle of good planning.

But there has always been a great deal of waste in the matter of housing in this country. Our cities have grown rapidly in consequence of the electrical age and then the automobile age, both superimposed on the industrial era. An incalculable amount of urban property has thus been deprived of a reasonable life span; it has been condemned to pass quickly into an inglorious and premature decay or to be swept away to make parking lots or to provide other facilities more necessary in our dynamic communities.

In the long run we shall pay a tremendous price for these wastes; in fact, we have already begun to do so, and it is conceivable that the time is not far away when our cities may cease to grow rapidly enough to make a continuation of this economic waste even imaginable, to say nothing of profitable.

It is with this phase of our national economy that this article will treat.

It is hardly necessary to outline to the reader what has occurred since the peak of real estate activity more than a dozen years ago and particularly what has characterized the almost complete paralysis of the movement of real estate in many of its phases during the seven or eight years since the general recession of business activity in 1929.

The buying and selling of city and rural property has been a business of importance to the continuity of life since recorded history began. The agent, as distinguished from the capitalist whose own property was bought and sold, was concerned with problems of rental, maintenance, depreciation, and, above all, the omnipresent problems of taxation, confiscation, and innumerable special burdens, feudal and prefeudal in character, which were inseparable from the long-term rental or the short-term turnover of agricultural holdings in late antiquity and throughout the Middle Ages. No small part of the law of property, as developed in western Europe and later in England and the English-speaking colonies, arose out of the activities, the customs, and the practices of the real estate agent. He was, probably until the late eighteenth century, predominantly rural in character and in the scope of his interest, but he came into the cities of western Europe and again particularly in England in proportion as the Industrial Revolution led to the urbanization of populations in large masses and the agricultural workers, especially their younger children, were attracted to the cities to work in the factories. These individuals occupied the abandoned houses of earlier generations, which had been turned into cheap tenements, or new housing was constructed for them by or on behalf of large holders of what had been suburban property but which became urban land by absorption into the growing city..

The movement of urban property, like the movement of any other kind, is simply the growth and function of the movement of population. If there is room in this country for a sizable body of men engaged in a semiprofessional way in dealing in and studying the phenomena of real estate, it is only because there are human beings who wish to move from city to city or from street to street and others whose improvement in earning

power or enlarged outlet for services make possible a change in the place or character of residence or work, or both. If there is a demand for property capable of industrial or commercial use so as to lead to specialization on the part of those who deal in such property, it is because the number of persons who will make use of a given commodity or of given services, or who will pass a particular corner in a given period, tends to increase in relation to other numbers of persons in other places; or there is an increase or change in the habits of a large number of consumers of goods or services. The growth and distribution of population is the paramount determining factor in the volume of property, in the market for its improvement, and in the prospective return on the capital which might be invested in improvements designed to make urban life safer, travel about cities more expeditious, or the provision of goods for daily consumption more dependable or better standardized.

In the last analysis, the study of population trends and shifts is a specialized field of knowledge. We cannot hope to look about us and find a world of omniscient people. Not everyone can devote even a portion of his thought to an analysis of the social implications and their effect on values of even so small a segment of the vast problem as a neighborhood shift. The same thing is true of the simplest aspects of chemistry, geology, botany, or the Einstein theory. Common ignorance of these learned sciences have few harmful social implications.

But the reverse is true of our subject. The almost universal ignorance of men as to population trends and their value-effects is the cause of the loss of millions of dollars and the freezing of millions more over long periods of time.

Generalizations are always dangerous, but it seems to be safe to say that not more than one appraiser or real estate man in twenty is prepared to do justice to an appraisal of a property caught in such a shift. This is not due to lack of willingness to learn; it springs from the fact that most men have not sufficient mental capacity to think such a problem through and to evaluate its elements in terms of a different psychological approach than that in which his mind has been trained.

We Americans have long been addicted to a highly optimistic view of real estate values. They have always increased; ergo, they always will. It is always a severe economic shock to us when declines occur. The explanation of the national psychology is that over the long pull it has always been true that values do increase.

The history of real estate values in toto in every tiny settlement is a continuous up-and-down movement with the trend ever up. We have been, and still are, the most confirmed land speculators in all history. With the richest land in all the world opening up for the taking and coincident therewith the opening of the modern industrial era, how could it have been otherwise? To cap the climax of the land speculator's dream in this same period, this nation saw its greatest increase in population through almost unrestricted immigration, plus an economic environment of the average family which made maximum reproductivity of man an ultimate good greatly to be desired.

All of these forces and trends are being reversed, and today we are faced with a complete necessity of revising all our thinking and planning for the future.

CAUSATIVE FACTORS

Immigration: One of the major factors in the growth of the United States has been its immigration policy. The total recorded immigration into the United States since the organization of the government is in excess of twenty-six and one half million. During the early and formative years of the republic, much of our original land settlement was by aliens who came here seeking their personal Eldorado in the free lands of the West. With the gradual settlement of the public lands and the lack of necessity for further

unskilled labor, restrictive legislation began to be advocated, which finally bore fruit in 1924 with the Quota Act. The present policy not only attempts to regulate the quantity of immigration, but it is selective as to quality. It encourages the Nordic and restricts the Alpine and Mediterranean peoples. This policy selects a type which closely resembles the prevailing United States norm, since 85 per cent of the whites in the nation in 1920 were from these dominant Nordic strains.

The present restrictive legislation permits a total quota entry in any year of only about 152,500 persons, but much of this is merely a theory since all quotas are available only to persons who are eligible to citizenship and admissible under the immigration laws. The laws deny citizenship to persons of certain racial strains included in the quota, and the laws respecting immigration deny entry to certain other strains. Then, too, much of this immigration is from countries whose officials are against further depletion of their man power through emigration of their citizens. The German quota, for example, is in excess of 25,900; yet, in the year ending June 30, 1934, only 4,392 German immigrants were allowed entry into the United States. How much further these restrictions against immigration on the part of the United States may go, no one can foresee at this time. On the other hand, how much more stringent foreign countries will make their regulations and restrictions against emigration is also a matter of conjecture.

In the period from 1902 until the outbreak of the World War, the total immigration into this country was in excess of 12,460,000 persons, a yearly average of 958,000. Recorded emigration in the same period averaged only about 5 per cent of admissions. These hordes of people had to have shelter; they needed homes even though crude and often without the simplest conveniences of life. The ready-made market for real estate was constantly being augmented by this influx from abroad.

The War suspended this movement; after it was over, we had only a few years of substantial immigration, never reaching the average figure quoted above, and then the Act of 1924 took effect with its restrictive features. Since the end of 1924 the largest number of immigrants arriving in any one year was barely one third of the prewar average, and the bottom was reached in 1933 when there were less than 24,000 admissions.

In the latter years of the nineteenth century and the first dozen years of the present century, adult immigrants arrived in our big cities, and most of them stayed there. They naturally had to live in the poorest accommodations that were available. They sought their own kind and congregated in great foreign centers in many of our large cities. They were the ones who occupied our slums, which in truth in most cases should have been demolished rather than turned over to them, but which in fact were made available for their use because their demand made it possible for someone to calculate a return on a meagre investment in this class of property.

Pressure from below kept a constant ferment in process and made it possible for the population of great cities to grow, with a more or less automatic habitant for the oldest and least desirable of our urban properties. In the past, this pressure has had the effect of, first, overcrowding and, second, dispersing of the inhabitants of these marginal communities. The pressure from below gradually forced out those best able to move into better quarters and into other racial settlements of improved surroundings, where the social and cultural advantages were right for future amalgamation into the American scene.

In the last thirteen years, however, that pressure has disappeared. The immigrants have been relatively few, and they have been cared for by relatives or have belonged to a class above those who, in the past, occupied our submarginal housing. These properties have lost their asset value as could have been foreseen as long

ago as 1924 by the informed student taking the long view. As the probable extreme example, the case of the lower East Side in New York is cited. In 1924, according to police census, the population of this neighborhood was about 500,000. At the present time, according to the police and social agencies, there are less than 200,000 persons in all of the East Side, and, of this number, almost 10 per cent are Asiatics who have resided there for many years and, generally speaking, are not assimilable.

Since the pressure of immigration has been relieved, there has been a constant recession in rents received from these properties, and, as their occupants became increasingly literate and vocal in the language of the country of their adoption, the pressure for improvement of these properties has increased. The landlord caught between the millstones of lowering rents and increased taxes and operating costs has been driven to demolish these properties in great numbers to save taxes and in other cases to board them up rather than comply with costly regulations designed to render these properties habitable.

The relief of pressure from arriving immigrants and a growing urban population has had still another effect on other submarginal property.

Formerly, when a family or group was ready to leave the submarginal district, the members generally found another racial district where the accommodations were slightly better at slightly higher rents, and the pressure of this group forced out the original inhabitants into still newer and better surroundings. This resulted in a general stimulation of the real estate market and the creation of more and more properties in many different locations.

Please bear in mind that the writer is not attempting to pass upon the wisdom of immigration policies or to express either regret or satisfaction that the change has been brought about. He is merely calling attention to one factor in the situation facing America based upon the effect of immigration in the history of our population, a fact which bears directly upon the problem of housing and upon the formulation of national and local policy with respect to housing and the valuation of residential real estate over the years ahead.

Emigration: Another fact complicating the general picture is the tendency toward emigration as a counterbalance of immigration. In each of the years since the onset of the depression, there have been more people who have left the United States as emigrants than have arrived as immigrants. In 1934, for example, there were 29,470 persons admitted as immigrants, and 39,771 departed from the United States as emigrants to other countries. This tendency is a measure of the fact that the United States no longer is the golden land which it formerly was to the lowly immigrant and that the economic conditions here are not so much different from those at home as to make it imperative that he remain.

Industrial, commercial, and agrarian migration: Recent studies have shown that there has been a gradual migration of industry away from the big city into a wider area. These studies have conclusively proven that there has been less actual decentralization than was commonly supposed among thinking students of such trends. While it is true that certain communities, particularly in the New England states, have become ghost towns through migration of industry, it is equally true that this same industry has generally relocated in another recognized industrial area. In 1910, about 90 per cent of all industries employing upwards of twenty-five workers were located in about 180 counties in the United States. In 1920, this field had broadened to include 200 counties, and this held relatively constant for 1930. Based upon the movement since that date, up to the last figures available, it would appear that, thanks to the present tendency toward larger single units and less plants, the probable America of the

future will have 90 per cent of its industry in fewer than 250 of its counties. The trend seems to be toward a further concentration of industry, not into single large cities, but rather into metropolitan communities. Instead of going into the large city with its high tax rates, restrictive legislation, and other hampering factors, the tendency seems to be to locate in the smaller towns on the periphery of the metropolitan area. The social implications of this trend are obvious.

Commercial migration is an old story in our larger cities. The decentralization of central business districts in our largest cities has been obvious for some years. Starting first in Chicago and New York, it has spread through all of our larger cities and will doubtless continue into many of medium size within the next decade.

Agrarian migration, which had so much to do with the settling of our great western plains, has again become an element in the future of our country due to several causative factors. Among the foremost is the gradual failure of much of our Great Plains as a farming country. The drought of the last six or seven years has brought about an agrarian migration of major proportions. Another factor is the considered policy of government in removing from production great quantities of marginal and submarginal agricultural land in the Middle West and South. The people removed from this land have been forced to migrate to other sections, not far in some cases and in others to great distances. The future of the great areas in the West and Northwest now being brought under irrigation will be vastly affected by agrarian migration or the lack thereof. If the government is to force a change in the character of land utilization in the Dust Bowl, there will be a further migration from that area because, if this country is to be allowed to revert to grass and to be used for the grazing of meat animals, it is obvious that the present population cannot be supported by such a system of agricultural use.

In general, it may be said that all migration, industrial, commercial, and agrarian, has a direct effect on the real estate market both in the sections affected by migration and in all of those tributary thereto. Our system of economic interdependence is so delicate, its adjustments so finely balanced, that it is not to be wondered at that the drought in Kansas vitally affects a cotton spinning mill in New England, a cotton gin in Mississippi, a cloth dyer in New Jersey, and an overall factory in Wisconsin. The effects of migration have not been carefully charted nor are they likely to be since the action and interplay of the controlling forces are often much too obscure to be seen except by the most detached study of causes and effects over a long span of years.

Birth rates and control: The fixed rate of population growth expressed in terms of percentages has been a declining curve for many years. This fact has been masked from the eyes of the nonthinking man because of the size of the net increase from census to census.

Before the Civil War, the increase was about 35 per cent per decade, dropping to 31 per cent in the decade 1870-80 and to 25.5 per cent in the period 1880-90. In the ten years from 1900 to 1910 the increase was 21 per cent, and, due to the World War in the following decade, the population increased only 14.9 per cent. For the last recorded decennial, the increase was 16.1 per cent, despite the fact that for four years of this period we had almost unrestricted immigration.

Experts have projected their curves into the future with startling results. The figures seem to indicate that within two decades we shall reach a stationary point, with a total optimum population of about 150,000,000.

Population policy is shaped by social wishes and desires. Restrictive immigration policies play a major role. The use of contraceptive devices and the spread and dissemination of information regarding the technique of birth control are a second

major consideration. In periods such as the depression period through which we are now passing, the sheer pressure of economic conditions has a marked effect on population growth as well as movement.

The rates of birth, death, and migration have had a large part in the redistribution of our population groups, and these forces are at work among our ethnic stocks. For example, among Negroes death rates are one and one half times as high as among whites. Death rates are somewhat higher among foreign-born whites than among native-born whites. Birth rates are higher for both Negroes and foreign-born whites than among native-born whites. The net result is that Negroes are declining in number, and, if present immigration policies continue, the foreign-born whites will be a further declining element in our population structure.

As the nation has become older, the median age of the population has risen from 16.7 years in 1820 to 26.4 years in 1930. This has come about through the fact that the number of persons in the older age groups has increased faster than the total population and the number in the younger groups has increased more slowly for the reasons just given.

This aging of the population is not new; it has been going on for over a century. What is new is the acceleration of change which is now taking place.

One example quoted by Warren S. Thompson and P. K. Whelpton is in the age group under five years of age. In 1920 there were 11,573,230 in this group and only 11,444,390 in 1930. The decline of 128,840 almost equals the entire number of children of this age group in the state of Connecticut.

Since there were fewer children under five in 1930 than in 1920, there was a smaller number of children to enter elementary school in the period 1930-35. By 1940-45 there will be a smaller number for each grade up to senior high school, for most of the children who will be in these grades in 1940 will have been born in 1924-31. This, assuming a stationary school enrolment in terms of percentage attending, would indicate a definite decline in school population from approximately the present time forward and, further assuming a static education cost per pupil, a declining educational budget for our states and cities.

Educators will be quick to point out, however, that in many sections a larger percentage of children of school age will probably be in school as the literate level of the population continues to rise.

Public health and longevity: When the increase in elders, through the aging of the population, is considered, the implications of the situation become more positive.

In the 1920-30 decade, the number of persons in the forty-five to sixty-four age group increased by roughly 25 per cent and those in the sixty-five to seventy-four age group by 33⅓ per cent. If the same ratios continue, and it clearly appears that they will, many problems of deep social significance will develop. This is particularly true of real estate values for reasons which will be stated later in this article. This trend will necessitate a complete revamping of our old-age pension laws, employment policies, and even our educational systems. The increasing aging of the population will certainly result in increasing numbers of dependent old-aged persons unless there is an expansion of employment opportunity or unless savings during the life working period are materially increased through higher general wage scales.

The declining birth rate, however, introduces another variable in our speculative equation since there will not be so many dependents; in addition, there will not be the present pressure to replace the older employee with the younger.

This shift toward an older age median will be felt in a national trend toward conservatism and increased interest in cultural activities by a larger share of the people.

The expectancy of life in 1919 was

fifty-six and four tenths years according to the *Foudray Life Tables*. It appears to have lengthened to almost sixty years in 1930. Projection would indicate a maximum of about sixty-six years by 1970.

It now begins to appear that fundamental changes in the reproductive rate of the population have been in progress for the last forty years. A great and lasting improvement in public health has taken place through more and more understanding of many of the problems of health and disease. This has resulted in the prolongation of life almost one third over that forty-year period. Such increases as have been shown in our population, therefore, are to be attributed primarily to the additional life expectancy and only secondarily to the maintenance of the rate of reproduction.

Transportation and communication: One of the biggest problems in the study of population trends and shifts in their relation to real estate values is the effect of transportation and communication on the life habits of the people. The entire method of life for both our rural and urban populations has been profoundly affected and modified by these agencies alone.

In the urban scene there has been a tendency to concentration in centers of high density. In the 1920-30 decade, our two largest cities continued to grow much faster than the average rate of increase for the country as a whole. The fastest rates of urban growth from 1920-30 and from 1930-35 (unofficial figures) were found in the smaller cities within the orbit of the metropolitan centers.

Suburban transportation has helped to disperse the population of cities. Boundary lines of cities in a social sense have become more and more shadowy. The economic bounds have likewise broadened and faded to almost the point of disappearance.

In short, thanks to transportation ease and rapidity of communication, a new type of population grouping is appearing—not the city, but the metropolitan area, a community consisting of a group of satellites, parasites if you will, dominated by a metropolitan center. As the railroad and the telegraph helped create our cities, so now has the automobile, telephone, and radio helped to create our metropolitan areas. The lives and habits of our rural population groups are being affected, changed, and modified by the same factors. Improved transport and communication and better marketing facilities have done away with much of the former isolation of rural life. The radio alone has worked a profound change on the farm and has enabled the farmer to do away with much of the hit-or-miss marketing of the past.

These transportation and communication forces, in their primitive form, were responsible for the creation of our cities; now, they are beginning to transform our rural scene with unpredictable future results. One result already apparent is the declining farm population due to the lack of necessity for so much man power as was formerly required. At the present time, there are fewer persons gainfully employed in agriculture than there are in manufacturing, and our rural population has fallen below the urban total.

EFFECT OF POPULATION SHIFTS ON VALUES

Value: Since value is the measure of comparative desirability and valuation is the process of determining the value of future benefits arising out of ownership, it is imperative that appraisers or students of land economics have a clear idea of the effect of shifts in population groupings. These shifts probably have the greatest single effect on value. How often have we watched the rise or fall of a neighborhood or section of a city, and how few of us there are who have been able to fully realize what was happening in sufficient time to rescue the investments of our own firms or our clients! The conflicting cross currents of economic and social forces which change the value of real estate and its earning power are today

so complex that valuations which do not consider all phases of the problem are dangerous. In the measuring of the size of a loan a property should be allowed to carry, errors in judgment are too costly to risk dependence on half-truths or on a vague and incomplete understanding of fundamental factors which affect value.

The city pattern and the effect of shifts: Almost every city has a recognizable pattern of growth. From its smallest beginnings it is usually possible to trace the pattern of growth and to discover what has motivated the changes which have taken place. Examination of old plat books and land-use maps, together with a study of the records of transfers, will very often indicate the critical points in the value curves of given sections when these curves are calculated on a known time scale.

There is an abundance of historical evidence to show that changes are always gradual and not instantaneous. Whatever may be the case in other fields of human endeavor, changes in the type and rate of land utilization come slowly and can usually be foreseen and gauged with a considerable degree of accuracy.

The fundamental causes which bring a city into existence are a combination of factors, usually a strategic location or a natural resource, plus the energy and vision of the pioneer community leaders. The development is usually bilateral: commercial and manufacturing. The original pattern usually consists of a small, sprawled-out business district closely surrounded by a relatively dense residential section, with here and there a mill, a factory, or a mine. With the growth of a village into a town and later into a city, certain inevitable changes take place. In many instances this growth is accompanied by a creeping of the business center to a new location. This movement, however, is generally very small and of little moment to the community as a whole.

With growth, there begins an encroachment of both business and industry on the original residential section. This starts an outward or extending movement which may be relied upon to continue while the growth of the city lasts. Those men who are financially able to do so move further out into newer homes located in better surroundings. The old houses are occupied by the poorer elements in the population who are not able to afford the newer and more desirable locations. Newcomers possessed of sufficient means join the exodus to the newer sections and assist in creating, first, speculative and, then, stable land values in these sections. With the continuation of this movement over extended periods of time, demands for transportation come into being. There results, first, the use of the private automobile; second, the development of bus lines or streetcar systems; and, lastly, rapid transit, elevated, or subway and steam railroad commuter service.

The demand for land for city purposes is at any one time usually rather highly localized in only a few districts, with a reasonably steady demand in the central business district, which, periodically during the period of growth, undergoes a process of more or less complete rebuilding as higher and higher land values are created through increases in the population concentration.

From the standpoint of value, as well as in some other respects, the central business district is generally of outstanding importance. The typical American city has but one central business district. New York City is unique in having two, and Los Angeles also may soon have two. This center completely overshadows the largest of the satellites. In metropolitan Chicago, for example, approximately one eighth of the total value of all real property is in the central business district.

While these highly localized activities are going on, another economic force is at work. Due to the creation of high land values by reason of proximity to the central business district, to transportation, to a satellite center, or for some other cause, land becomes too valuable for its original use, and supersession or transition sets in. Some examples are: farm

land to suburban residential; single-family sections to multiple-family apartments; and the demolition of low buildings in the central business district and the erection of skyscrapers.

Next in importance, from the standpoint of high value, are the various satellite business centers. While the values in these centers are high, the areas involved are usually very small. The reason for this is seen in the small amount of land needed to contain all of the commercial structures of a small community.

The formation of the satellite business centers and the changes which occur follow generally, in miniature, the movements which take place with respect to the central business district. At first they are no more than neighborhood business centers. However, with the increasing inadequacy of modern transportation systems, the spreading out of the urban mass and the increasing failure to maintain comfortable and convenient service between these outthrusting residential areas and the central business districts, the tendency in these satellite business centers in recent years has been to the development of a more complete pattern of their own. Today we find in the outlying sections of New York, Chicago, Los Angeles, Detroit, and other cities all of those types of facilities and commercial enterprises once regarded as solely the function and use of the central business district. This decentralization is slowly but surely sapping the values of the central business district land in almost every large city. Apparently, this decentralization is occuring in every use classification, including office space. In the opinion of the writer, it can be counteracted only by major, if not revolutionary, changes in our intra-urban transportation systems.

While, so far as is known, it has never been clearly shown by competent analysis or research, it appears that the satellite centers follow much the same cycle of change as occurs in the central business district. In the early stages there is the same spreading, accompanied usually by a slow movement of the center, with a later cessation of this movement, a tendency to compact about a fixed point, and, ultimately, the decay of this business section or district caused by the decay of its supporting residential area.

The demand for new facilities in outlying sections ceases just as soon as the supporting and surrounding residential areas cease to grow. A detailed study of these business concentrations in small areas is useful in any problem involving property in the center. If the horizontal expansion and the creeping of the center have not yet ceased and the property in question is in the path of development, sharp increases in value may be expected. On the other hand, if creeping and expansion have ceased or if the property is on the wrong side of the movement, mere proximity will not cause a rise in value. Many such properties are worth less than properties available for residential use farther away. In other words, these outlying centers can have their little rings of blighted territory in the same way as the central business district.

Both single-family and apartment districts usually develop with considerable rapidity and more or less completely with a uniform type of development. In fact, in most of our American cities this is controlled in modern times through zoning restrictions or deed restrictions, both of which are designed to force proper economic utilization of land for the ultimate good of the entire population. Almost as soon as building stops in a new residential section, the area begins to decay and to decline. At first, this movement is so slight as to be negligible; in fact, in the better class sections it may not be a serious factor for a decade or two. However, in due time, the inevitable physical deterioration and obsolescence of the structures themselves have their effect. Those able to do so abandon such a neighborhood and are replaced by a poorer class, either as owners or renters. Sometimes this change is hastened by industrial and commercial encroachments, but more

often by the infiltration of racial groups deemed undesirable by the former residents. Sometimes, on the other hand, this movement is retarded by natural causes, such as proximity to desirable locations: for example, in Chicago, nearness to the lake and to major fixed transportation lines, again by the formation of neighborhood groups designed to prevent the influx of undesirables, by deed restrictions, by neighborhood agreements, and by other means.

In the case of single-family districts, there is sometimes a conversion to multiple-family uses. This occurs, first, perhaps, through changes in the zoning ordinances, allowing utilization of leftover land, and, then, by demolition of the older houses on the more desirable sites. This type of economic supersession is seldom, if ever, complete and presents a very real challenge to straight thinking on the part of the appraiser: first, for the reason that transition proceeds very slowly and, second, because of the fact that it is frequently violently opposed by the owners of the district. Due to the slowness of the rate of conversion, those multiple-family structures which were built first often deteriorate appreciably before the major portion of the territory is converted; in the meantime, the demand for such facilities very often shifts to a new district. With continued decay and infiltration of undesirable elements and commercial and industrial buildings, these districts also ultimately reach their end point.

The cause of the formation of these blighted districts is the interplay of the major social forces. In the first group are those economic forces which result in the gradual abandonment of the older residential areas, and in the second group are those which, operating through their effect on land values or the rent of land, create an inward or compacting force on the business centers, most particularly upon the central business district. The social forces are outward, in favor of new land and new housing in momentarily more desirable sections, while the economic force is inward, toward the central district. The combination of the two produces a sort of vacuum within the circle of which anything may, and often does, happen.

Many people have the idea that supercession or transition is inevitable and that all urban land will ultimately become more valuable. Some of those in the real estate business and the owners of property in blighted or decaying districts are probably the strongest advocates of this idea. They justify their belief upon the basis of the natural growth and development of the city and the conversion of land to higher value uses. Nothing could be further from the truth, as an analysis of your own community will show. While, in general, there is an increasing demand in any growing community for real estate facilities of all kinds, this demand is, at best, evidenced in only certain limited areas—the growth or trend is not spread evenly over all sections.

Ordinarily, land in a passé residential district is a liability rather than an asset. There is no demand for such lots for improvement, and the remote possibility of development into a higher use classification adds little to value, for reasons which have already been pointed out.

In the determination of true value—which may be called capital value or the economic rent to be paid for the use and enjoyment of a piece of real property—as a part of the neighborhood analysis, consideration must be given to the character and cost of government of the political subdivision in which it is located. In the case of a city home, this is affected by the character of the population of the neighborhood—the economic level, if you please, the social and educational advantages tributary to the section. There must be streets, schools, sidewalks, sewers, running water, gas, electricity, telephones, and means of transportation in order to create these values as land itself has little value without these improvements.

Implication of declining population on values: The changes which appear to be

certain as the result of the aging of our population and its eventual stationary, and later declining, quantity are far-reaching in their effect on real estate values. In the last century, during which our population increased rapidly and became increasingly urban in character, all of our economic thinking in the matter of values was predicated upon the assumption of a constantly increasing demand for, and utilization of, our available land. Vacant housing or vacant lots caused only a temporary feeling of uncertainty as the condition which caused the vacancy was considered only temporary.

Now that our population is growing older, the aggregate number of years left to it will become continuously less. With a lessening of family ties through smaller families, the tendencies of the present and past generations to accumulate a "stake in the earth" will diminish and the desire for large homes will pass out of the urban scene. Our growing number of persons in the higher-age groups has already brought about state and governmental subsidized security. This additional factor of a known dependence on the state will lower the acquisitive tendencies of the future with respect to real property and its attendant burden of ownership.

It is necessary, of course, to qualify in some measure the impact of the influences which have been described. As the changes which lie ahead become increasingly clear, the number of persons in the median-age groups of thirty to fifty will be increasing. In other words, even with a declining population, these age groups, from which the most demands for housing will arise, will continue to increase for some time into the future. The long-term outlook implies, however, the need for greater conservatism and a high order of insight in the conduct of the real estate business and particularly in the matter of valuations of real property.

Breakup of nationalistic groupings: In many of our large cities there have existed for many years well-recognized centers of nationalistic groups. These centers, usually in submarginal or marginal housing, were the natural results of the unrestricted immigration policies which the nation pursued over a long span of time. With the decline in the number of admitted immigrants, these centers have contracted and, as the children of these foreign-born parents have become amalgamated into the life of their communities, they have generally left these surroundings in favor of better homes in other sections. The final breakup of these nationalistic groupings will, of course, be a long, slow process, but it is inevitable, and its value effect on the properties in question will be severe.

Breakup of central business districts: In our large metropolitan communities, including in this group approximately the first ten cities in point of numbers of inhabitants, the decentralization process with respect to the central business district has been in the making for at least a decade. The increasing difficulty in arranging to get to and from this district by present means of transit has resulted in the creation of satellite centers already described in some detail. It is the opinion of the writer that the central business district of practically every larger American city is dying at its core today.

The only remedy for this condition apparent to the author is the complete reformation of the thinking and planning of the officials of these communities.

SUGGESTED REMEDIES

The much-mooted subject of slum clearance is so closely related with so many other problems of urban life as to be almost incapable of solution without a radical change in our basic law. It is believed that many of our slum areas could, with proper planning and with minor changes in substantive law, be rehabilitated. One of the major paradoxes of American life is the fact that we deliberately pass by large areas in our major cities, without any attempt at their economic rehabilitation, and proceed out

of the city into the country and there install a duplicate of all the municipal services which are available in the blighted district—taxing the blighted district still further in order to support the far-flung extensions just placed. It would appear entirely within the realm of possibility that by the use of the laws of eminent domain, plus intelligent city planning and excess condemnation, rehabilitation of many, if not all, of these areas could be accomplished at very little ultimate cost if, from the cost of so doing, the monies saved by the noninstallation of expanding facilities about the periphery of the city were deducted.

During the period of rehabilitation it might be necessary to extend some relief from taxation and to make changes in the zoning or other use restrictions. Neither of these is an insuperable barrier to the accomplishment of a worthwhile job in the saving of the city center and the areas contiguous thereto.

Above all, there must be a change in the psychology of our governing officials. Mere mass in population is not particularly desirable. The inclusion of tremendous areas of vacant or semivacant land in a municipality serves no useful purpose and is an extravagance which most of our cities can ill afford. If our cities would adopt a policy of conservatism instead of trying to outdo one another in the cost of governing, saner municipal government would follow, and our taxes on real property would no longer approach the stage of confiscation. Paternalism in government is to be lauded up to a certain point; fire protection, police, public health, and education are all necessary concomitant of urban life. Beyond this point, no municipality should attempt to go.

Much of the municipal planning now being done must be revised in the light of a cold analysis of the future population trends of the United States. Already, in many of our cities, we have abandoned school houses representing tremendous investments. Our large high school plants, to which additions are being made constantly, each city endeavoring to outspend its neighbor in the magnificence and size of its edifices, will be faced with a declining enrolment within a decade.

Additional blighted areas are being created as our middle-city buildings grow older. These sections, on which taxes have been regularly increased as the far-flung suburbs were incorporated into the city, have been literally taxed to death. Planning must be revised in favor of the rehabilitation and maximum utilization of these areas instead of permitting further expansion.

In addition, there must be a change in the psychology and thinking of the real estate man and the appraiser. Remember that our days of growth and dynamic change are about over. The real estate man of the future must be trained to work with the existing properties. His job will be management, rehabilitation, guardianship, and care of the investment properties of others.

The appraiser must reform his thinking along the lines of sane, long-term investment analysis. The days of large unearned increments and speculative values of an ever-increasing trend are gone.

It will be those who recognize the underlying trend of events who will be able to protect themselves and their clients adequately when these events take place.

It would seem that the time is now at hand to begin scientific analysis, upon a broad basis, of the practical problems involved in the real estate field. So far as this field deals with organized communities, it is, in reality, dealing with the way in which cities grow, maintain themselves, decay, and pass away. Only by study, analysis, and broad training can we prepare ourselves for the momentous changes ahead.

Selling Prices as Indices of Value

By A. B. KISSACK, M.A.I.

APPRAISING involves the assignment of values to properties by estimate; such estimates vary from the mere opinion roughly based upon imperfect and incomplete information to the considered judgment after complete analyses and computations from all the available factual data. Perhaps the greater share of the appraising of real properties today is of the former type, which relies on an intuitive mental process based upon individual experience. However, this type of appraising, which as an art has been practiced for centuries, is rapidly losing acceptance. It allowed the incompetent to guess and to speak with apparent authority, much to the discredit of the appraisal profession.

Nothing has been more wholesome or had a more stimulating effect upon the entire field of real estate than the efforts of the American Institute of Real Estate Appraisers to bring appraising to a high professional standing. The requirements of competency, knowledge, experience, and integrity of its members, together with comprehensive research and educational programs, will go far to remove the stigma of guessing and to add a scientific approach to an old art.

INHERENT QUALITIES OF REAL PROPERTY

Real properties possess capacities for service only; such inherent qualities as location, size, design, architecture, quality of construction, etc. are capacities of real properties just as hardness, color, and sparkle are capacities of the diamond. The needs and desires of man give economic significance to these capacities. When man desires these capacities, he becomes willing to spend time, effort, or money to produce them, to pay rent for their use, or to exchange goods or money for their ownership. In this sense, capacities are the only inherent or intrinsic qualities of real properties. Cost, price, and worth or value are not inherent but are assigned to them by man. The properties in a deserted mining town and the mythical office building in the desert are good examples of inherent capacities without economic significance.

ECONOMIC FORCES

Americans look with great pride on the tremendous development of their country during the past one hundred and fifty years. An overabundance of natural resources, a fearless and inventive people, and an economic system of private property and freedom of enterprise are primarily accountable for the America of today. This so-called capitalistic system of private capital and production and distribution for private gain is the apparent system under which we operate today. It is motivated by profits and functions through open competition and the free interplay of supply and demand in markets which automatically establish price levels by which the values in exchange of all goods, services, and labor are measured. When changing economic forces become unbalanced, the system contains within itself the means of self adjustment by changes in price levels. Many Americans are apprehensive today that outside tinkering through governmental experiments, where freedom of enterprise is stifled by regulations and profits are curtailed by taxation, or internal price fixing by labor or other monopoly, will prevent the system itself from correcting economic maladjustments. However, the appraiser is not primarily concerned in the criticism of governmental policies since his true function is to estimate the economic significance of real properties under the system as it exists. Though not a political economist, the appraiser must have a thorough knowledge of the operations of economic laws.

Prices, therefore, are the only positive and actual economic manifestations which result from the operations of our economic system. Price is used as the amount of money a property actually commands in exchange and not the negotiating prices prior to the exchange, such as the asking price or the offering price. Three classes of prices concerning real properties are established in three different markets: (1) construction market; (2) rental market; and (3) exchange market. Each of these markets is separate and distinct from the others to such a degree that the real estate business divides into groups which specialize in each of them. The architect and contractor specialize in the construction market; the property manager and leasing specialist, in the rental market; and the broker and salesman, in the real estate exchange market. However, the three markets are so interrelated that the appraiser must have a thorough working knowledge in all three of them although he is not a specialist in any of them.

In each of these markets open competition and the laws of supply and demand establish price levels. The prices of materials, labor, and the contractor's margin, which make up the cost of construction, increase or decrease as the relation of construction activity to construction facilities increases or decreases. Likewise, rents, which represent the price of use (possession and occupancy), rise and decline as the relation of the demand to the supply of rental units is favorable or unfavorable. In the market of exchange the laws of supply and demand operate, and market price rises or falls as the relation of buyers to the number of properties for sale is favorable or unfavorable.

These three markets control the price levels of real properties for three entirely different purposes, i.e., price of production, price of use, and price of exchange. The developer is more concerned with the cost or production price and the selling price. The difference between these two prices represents profit and loss, the motivating or inhibiting force of all business activities. The present and expected future prices in one or more of these markets affect the lives of practically all people, whether owner, buyer, renter, builder, architect, engineer, banker, businessman, or appraiser.

From a study of the past we find that the prices in these markets are in a constant state of change. Changes in the demand-supply ratio, in age, in styles, in environments, and in the value of money cause continuous changes in price levels. Perhaps the most certain thing concerning real properties is that construction costs, rents, and market prices will be different in the future from what they are today. Stability in real estate price levels is not even a remote possibility. Factual data of the past reveal a definite cyclic change in economic forces which averages about eighteen years in length and which occurs with striking regularity and intensity of change. From 1795 recorded data of real estate transactions occur in this same regular capital goods cycle, and some tax data on building materials in England prior to that date vary in this same regular cyclic movement.

Representing the record of the past, the cyclic changes would be of historic interest only if the very regularity and intensity of the cycle itself and the underlying economic causes did not give indications, considered more than reasonable probabilities, of their continuance in the future with at least somewhat similar regularity and intensity. Upon this basis the major real estate cycle can be of material assistance to the appraiser in guiding his estimates of future economic changes.

The changes in price levels in different positions of this cycle are very great. An identical small home, which cost $10,000 to build in 1926 could have been built in 1932 for $6,200, and today, for $8,110. Residential rents experienced a somewhat similar change; and market prices, an even greater one.

FUTURE BENEFITS

All things are desired for their future satisfactions; even a meal or a "movie" is desired for future gratification or enjoyment although the period in the future may be but a few minutes. In rare instances the future satisfaction may be the past connections and sentiments attached to something which creates a sentimental value to a particular owner. Real properties, like other capital goods, possess long lives and the quality of rendering to the owners benefits and returns commensurate with their usefulness. Such properties are desired primarily for the present and future increment of service and return to ownership. A capital sum, calculated in such an amount that the anticipated net earnings to ownership will pay a proper rate of return and restore to the owner this full capital sum in the period of the remaining useful life, is designated *value for use* in distinction to all other values which man attaches to property. Such a capital worth represents merely the capitalization of all future benefits which, in the appraiser's considered judgment at the time, can be expected as reasonable probabilities.

A probability is that which appears likely to occur when supported by past or present data; however, probabilities contain some doubt and are not assurances. On the other hand, a possibility is that which is capable of happening but which may or may not. In estimating *value for use*, the appraiser is justified in assuming only probabilities and never possibilities although he may feel strongly that the latter will result. Subsequent actual events may prove that the assumed probabilities were wrong and that the possibilities, if used, would have been the correct assumptions. It appears that the assumption of a reasonable future effect which would follow in logical sequence some present or past cause can generally be considered a reasonable probability, but the assumption of a future cause resulting in some future later effect is a possibility. In this sense the cyclic changes of the major capital goods cycle in the past would be a reasonable probability for their continuance in similar form in the future. However, the capitalization of the returns in future markets, requiring many assumptions on the part of the appraiser, indicates that value for use, at best, is an approximated value which no two competent and independent appraisers would in all probability estimate as the same amount for any specific property.

VALUE FOR USE

Value for use is not a price in the sense that it represents the amount of money or goods a property can actually command in exchange; neither is it market value in the sense that it represents the amount of money a property would command in a balanced market of exchange. In periods of an active market when the owner can get a greater price than this estimated worth or in periods of inactivity when buyers can purchase for less than worth, value for use is not a justified value from the standpoint of either the buyer or the owner.

This writer entirely disagrees with the statement in *Appraisal Terminology* (page 84) to the effect that value for use is synonymous with "market value" without qualification when a sale is involved or inferred. Such a market is purely mythical and nonexistent; it assumes a market as it ought to be or as we should like to have it instead of as it actually is. This designation not only places a heavy strain on the imagination, but it is quite deceptive and misleading without a proper qualification. Such an "ideal" or "theoretical" market assumes a state where there is no competition and the laws of supply and demand are suspended, where all buyers and sellers are equally informed, intelligent, and willing, and where no buyer would pay more and no seller would take less than value for use calculated from the assumed returns in the future markets for use. If two or more buyers desired the same property as an invest-

ment, the price would not increase from the increased demand in such a market. The use of the term "market" unqualified is considered wrong actually, morally, and legally in most litigations.

In this writer's opinion, value for use is never market value; it is that underlying value level or real worth which measures all of the services and benefits which flow to ownership throughout the useful life of a property. It is an estimated sum and is not an actual economic manifestation in any market. It is calculated from present and expected price levels manifested in the construction and rental markets and never from price levels in the market of exchange.

MARKETS

An actual market is generally understood to be a place or the means by which the exchange of properties is facilitated by establishing price levels through open competition and the interplay of supply and demand. Actual markets for the exchange of real properties, while local to a great extent, are well organized and competent. The greater part of the functions of real estate boards, national and local, is to improve and make effective the actual markets for the exchange of real properties. Real estate markets will never have the dispatch of those highly organized markets for commodities of like units of equal utility, but they possess efficient means of bringing buyers and sellers together and of establishing market prices within a reasonable time.

Selling prices are not market prices unless the sales are voluntarily made under competitive conditions in an actual market of exchange. Market prices of comparable properties, when properly weighted for their individual utility, become merely a guide to the appraiser in his estimate of actual market value of a specific property.

Ownership of a real property grants to the owner by law two basic rights: (1) the right to enjoy the stream of future benefits which flows from its use and (2) the right to exchange the property, including all rights of ownership, for other properties or for money. The actual market of exchange is the only medium by which he can convert his property and rights of ownership into money. Whether a sale is inferred or involved, the appraiser is confronted with the money equivalents of both basic rights of ownership. The first is value for use; the second is actual market value. These two basic values are applicable to all properties.

There is an apparent feeling among many that the markets in which commodities are converted into money go to extremes and establish market prices clearly out of line with their use value. Especially with real properties, where it is possible to assume the future expectations and to approximate the value for use, market prices appear to act irrationally when economic conditions become unbalanced. This is true of all markets where open competition establishes market prices upon the basis of relative scarcity under our present economic system. It would be possible for an appraiser to estimate the investment value or the value for use of American Telephone and Telegraph Company stock, which has enjoyed a splendid record of return in the past and probably has equally good future expectations. The actual market value of this stock at any time estimated from the market prices established in the stock market would indicate like or greater market price variations when compared with this estimated value for use.

One of the peculiarities of real properties is that the favorable or unfavorable balance of economic conditions lasts for long periods. This is due to the fixed position of real properties and the long real estate cycle. Market prices of real properties do not experience the quick changes peculiar to the security market; they remain at high or low levels for years at a time. During the peak twenties, properties were easy to sell; even the butcher and the baker became successful salesmen over night. During the low

thirties, competent and experienced real estate salesmen found the going very difficult. This condition is not exclusive with markets of exchange, but also true with the rental market. Rents change slowly to extremes, and the stream of benefits for long periods runs bankfull; at others it diminishes to a trickle or entirely dries up. With some properties the stream flows away from the owner, and the property is a temporary liability. Even today many properties are still in that condition.

REPLACEMENT COST

Maximum worth or replacement cost of land and improvements, which can be defined as the worth of the land calculated for its highest and best use plus the estimated cost of construction to replace the new or existing improvement thereon, is a third key value of more importance to the appraiser than to the public. Replacement cost represents the maximum worth of a property or the ceiling above which its economic value for use cannot go. This maximum worth does not include the historic worth applicable in rare instances to specific properties due to some outstanding event as in the case of the birthplace of a famous personage, etc.; nor does it take into account the worth of a favorable or unfavorable lease contracted by a responsible party for a long period in the future at a rent level above or below the expected economic rental value. These special values are usually appraised separately and not as a part of the real property.

In estimating the replacement cost of the improvements, the actual cost or a contractor's bid may or may not be a proper construction price. It is well known that contractors' bids on identical plans in the same market generally show a large spread between the high and the low figures. It is the function of the appraiser to gauge all market conditions, to include all items properly entering into construction cost, and to estimate a proper price level to represent the lowest and best estimate for a specific building.

Replacement cost becomes an important guide to the appraiser when future services are extremely difficult to convert into rental values, and he must rely on replacement cost, depreciation, and inadequacy of land use in his estimate of value for use.

The relationships of replacement cost, value for use, and actual market value, which are three key values connected with price levels in the three markets affecting real properties, are of the utmost importance to the appraiser and the public.

The relation between value for use and replacement cost gives the extent of loss in maximum worth from depreciation and inadequate land use which has accrued during the expired economic life of a property. Depreciation is used in its broadest sense to mean the resulting permanent loss in replacement cost or maximum worth from all impairing influences of a physical, functional, or economic nature, which permanently lower revenue or raise expenses and thereby permanently reduce present and expected net incomes. The term "permanent" is used merely in the sense of a definite impairment or blight which can be lessened or partly removed only when the environment undergoes definite and unpredictable improvement or when the property itself is changed by remodeling, rehabilitation, or modernization.

It is often quite difficult to estimate with reasonable accuracy the losses from accrued depreciation even after a thorough examination and study of a property, and therefore it is better practice to use both the cost and income methods in finding value for use whenever possible. This relationship does indicate that value for use can be defined as replacement cost less all permanent losses of depreciation and inadequacy of land use accrued during the expired economic life. It is common practice to find value for use by this method alone for single dwellings and other purely service properties.

The relation between replacement cost

and market value is of vital significance when it applies to newly constructed properties. If this ratio is unfavorable, construction volume quickly subsides; or, on the other hand, if it is favorable, construction is stimulated and volume increases. This ratio is a fundamental and necessary control of the construction phase of the real estate business. The profitableness or unprofitableness of new construction to the developer automatically increases or lowers construction volume. It has never been lack of credit which slowed down construction volume. Many home developers have new houses on their hands, vacant and unsold, which were built last summer at costs above a declining actual market value.

Perhaps the most important relationship is that between actual market value and value for use—the two basic concepts of value around which controversy continues without abatement. The former relates to exchange, and the latter, to use; each is an estimated value representing one of the two basic rights of ownership. Both values are applicable to all types of properties from the smallest cottage to the pretentious skyscraper. Both values are different in nature but of equal importance to owners, buyers, builders, and mortgage bankers.

Technically, the relation between these two values represents the extent of the convertibility of a property into money. This ratio is not constant but variable, changing in extent as cyclic economic forces ebb and flow and varying in amount for different types of properties. In boom periods all properties have a higher ratio of liquidity, many of which have a market value above value for use; in depression periods all properties have a lower ratio.

CONVERTIBILITY OF PROPERTIES

Many properties, due to their large capacity and design for special use, generally have low ratios of convertibility. In such a case, the owner possesses in reality only one right of ownership, and the appraiser could estimate only value for use. The owner would possess a fixed asset with slight liquidity at any position in the cycle, and he alone could enjoy the stream of benefits which flowed from its use. The mortgage banker would look more to ownership than to the property as the basis of a loan. Such properties as museums, universities, libraries, churches, etc. fall into this class of properties with exceptionally low ratios of convertibility.

Liquidity apparently varies in proportion to the number of prospective users at different periods of the real estate cycle. The large, pretentious mansion designed for the special taste of a particular owner belongs to the class of low convertibility properties. On the other hand, the small type home has a relatively high ratio of convertibility. Actual market value varies above or below value for use, depending upon the extent of real estate activity.

From the standpoint of the mortgage banker, there appear to be three important influences which affect the soundness of mortgage loans:

1. Value for use represents the real worth upon which mortgage loans should be based.
2. The sound percentage of the amount of loan to this real worth depends primarily upon the present and expected extent of convertibility of the specific property into money.
3. The amortization period of the loan should be governed to a large extent by the present position in the real estate cycle and the expected trend in the immediate future.

The new insurance plans of the Federal Housing Administration in providing for 90 per cent loans on small homes, with a twenty-five-year amortization period, appear to be sound financing at this time, provided this government policy is merely an emergency measure effective for not more than three years.

"VALUE . . . A WORD OF MANY MEANINGS"

It is apparent that the single value concept is incomplete and fails to give a true picture of two vital values concerning real properties. It is not the purpose here to discuss the relative merits of actual mar-

ket value and value for use. It little matters which of the two warrants the designation of "value" unqualified. The two values are merely monetary sums placed upon a property by estimate of the appraiser to measure the economic significance to the owner for use and for exchange. This writer is inclined to Justice Brandeis' viewpoint, that "value is a word of many meanings." It is capable of being construed in as many meanings as there are purposes for its use. It is believed better practice to use value only with proper qualification to designate the exact meaning intended.

In the conduct of business and in the many transactions involving real properties in all walks of life, these two values and their relationship are readily understood with surprising clarity. Only a small number of these many transactions ever gets into litigation. Appraising for taxation purposes, for rate-making purposes, and for damages in litigations and the condemnation of real properties requires special training and experience and can be considered a profession in each of these phases. In law, the appraiser does not have the freedom of appraising in accordance with the actualities of our economic system and common sense as is the case in the broad field of commercial appraising, but is confined in his judgment by legislative and judicial definitions of value. In different jurisdictions and for different purposes, value has various shadings of meanings surrounded by traditions and precedents. For certain purposes, costs assume the nature of value and markets are restricted in an attempt to render the litigant more justice. The expert witness must have a quick intelligence and an even temperament. He must be well founded in the fundamentals of economic laws; he must also be well acquainted with specific definitions and rules of evidence and have all factual data at hand upon which he bases his conclusions. Experience is an essential. The qualified and competent appraiser can readily adjust his calculations to bring his conclusions within the exact definition and intent of the law for most litigations. However, the valuation engineer in the appraisal of fair value for rate-making purposes requires special education, training, and experience in a highly technical profession.

ARE SELLING PRICES INDICES OF VALUE?

It would appear that this paper has gone far afield in analyzing whether selling prices are indices of value. It is hoped that in the foregoing discussion of values and their relationships a negative answer is indicated. Selling prices are market prices when the sale is made voluntarily under competitive conditions in a market of exchange. Market prices of comparable properties, when properly weighted for their individual utilities, constitute a guide to the appraiser in his estimate of actual market value of a specific property although a sale is not even contemplated. Selling prices, therefore, are not indices of actual market value. Because of the varying relationship of actual market value to value for use for different types of properties and at different periods, it would be a miracle if selling prices represented indices of worth or value for use for all types at all times.

This is self-evident with all capital goods, especially with most real properties where an actual market establishes rent or the price of use. Perhaps it is true with all things exchanged for money upon the basis of relative scarcity although the real value of the satisfactions rendered ownership, especially for consumable goods, cannot be measured or estimated from any actual economic manifestation. This has led the vast majority to the opinion expressed in that jingle: "The worth of a thing is the price it will bring." It forms the basis for the price concept of value instead of the sounder and more fundamental concept of service and use.

Economic Life

By LEONARD C. SMITH, M.A.I.

"The average period of economic life of this type of improvement is fifty years. The subject property being thirty years old, there is a remainder of economic life of twenty years. The net earnings expectancy capitalized over this period of years amounts to . . . "
—Quotation from an appraisal report.

THOSE simple and unobtrusive words, tucked away in the body of an impressive and a detailed appraisal report, are of the profoundest significance because they contain the major premise upon which a most important approach to the estimate of value has been based, namely the period of estimated remainder of economic life. It is the practice of able and well-informed appraisers to project their thoughts into the future and to evolve in their minds an opinion of the definite period of years of economic life which a subject property may be expected to enjoy. Usually this estimation results from a comparison of the type and condition of the subject property with that which has been taken to be a standard of experience in the past. Such a practice is dependent for its reliability and efficacy upon the presumption that the future will be exactly like the past. Today, there are evidences on every hand that such a premise is decidedly dangerous and likely to lead to erroneous conclusions.

Each day that passes shows pointedly that society is reacting in a new and different manner. Adjustments to changing conditions are constantly being made. Every indication points to more changes and to new and untraveled paths to be encountered in the future. The realization that any estimation of the remainder of economic life in a subject property is purely arbitrary on the part of the appraiser, that it is at best highly speculative in nature, that it is predicated upon premises which appear to be faulty, and that it makes the appraiser and his report vulnerable to effective criticism would appear to be adequate reasons for an effort to change the technique of appraising in order to correct such frailties.

In the appraisal of all real property to some extent and of income-producing property to a large degree, the final estimate of value bears a definite relationship to the anticipated stream of income which the property may be expected to produce in the future. Well-informed appraisers enter into exhaustive inquiry and research by examining and weighing carefully every item of prospective income and expense incident to the proper management of the property in order that a true estimation of the net income expectancy can be evolved. In a like manner, great care is exercised in giving due reflection to an appropriate rate of capitalization. The yields of comparable and competitive investments in other fields which would be available to a typical prospective purchaser are investigated thoroughly in order to determine just what rate of net return on the capital investment in the subject property would be demanded as being commensurate with the risk involved.

Before such data can be utilized in a capitalization approach to the estimate of value, it becomes necessary that a third element be provided in addition to the net income and the rate, namely, the remainder of economic life in the subject property or the approximate number of years during which the net income may be expected to be produced. That he might make as accurate a forecast as possible, the appraiser seeks to establish the average economic life of the same type of property under similar conditions of location and use. The depths of his own experience are plumbed and every reliable authority is consulted so that this very important premise may be consistent and fair. In this manner, strictly upon the

basis of past experience, a control is established upon which to superimpose the subject property. From the data program, the appraiser is well informed as to the actual age of the subject property, the present physical condition, the present and potential occupancy, the quality of construction, the condition as to plan, design, and other functional features, the relation of the property to its surroundings, neighborhood, and community, and its utility, desirability, and stability.

After giving due reflection to all of such information, it is customary to set an estimated effective age of the property, which may be greater or less than the actual age, depending upon the data, and then to deduct such effective age estimate from the assigned economic life attributable to the pattern of similar properties, leaving a remainder of economic life which is assigned to the subject property. From that point, the matter of the estimate of capitalized value becomes one of arithmetical computation. The present worth of the anticipated stream of net income at the rate of discount deemed in keeping with the public demand for the risk involved for the number of years of assigned period of remaining life is calculated according to the particular capitalization premise found appropriate. Thus, the estimated remainder of economic life which the subject property is expected to enjoy is established as a very important element upon which the appraiser bases his capitalized income approach to the final opinion of value.

All of this procedure has been in strict conformance with the best of accepted standards of practice in the appraisal profession. This portion of the appraisal process has been evolved by the great minds in the profession. It cannot be said that the practice has been without foundation of reason or that up to this time serious errors in final judgment have arisen through its use. In general, it has been in keeping with conditions of the past. But there are definite objections to a continuation of this practice in view of unmistakable evidences that broad and revolutionary changes are in the process of taking place which will alter the applied economics of the future in such a manner that some of the old formulae and yardsticks no longer will be applicable. An examination into the effect that these trends and transitions will have upon the process and technique of appraising would seem to be appropriate.

"TIME MARCHES ON"

In studying the history of the growth and development of every city, large or small, it will be apparent that commercial and industrial progress, with consequent periods of great prosperity, has left in its wake properties of every type which have within them long years of remaining physical life and utility if given the care that is usual to the preservation of buildings. But such areas are found to be decadent and tenanted by occupants not in keeping with the original plan and not capable of rendering the operation of the holding profitable. These sections form the "doughnut" ring of distress found around the central section of the city. Residence sections have begun to show the symptoms as soon as they are near to being 100 per cent built-up. The irony of the situation created is that usually such sections occupy land which is most favorably located from the standpoint of convenience and transportation. The same conditions in a lesser degree affect individual properties or small groups in nearly every section of the city.

Zoning restrictions and deed covenants have been quite feeble or of too recent origin to be effective in stemming the seemingly inexorable spread of such obsolescence.

Decadent areas become such not because undesirable and inharmonious people move in first but because the appropriate class of occupants move out. Radical changes in the underlying causes of this mutation of population appear destined to so operate that real estate values will be affected in a vital manner.

COMMERCIAL AND INDUSTRIAL PROGRESS

During the century prior to the World War the United States experienced a number of pertinent phenomena. There was little restriction upon immigration. The great influx of rugged, ambitious, liberty-seeking people from all parts of the world brought willing hands to help build and expand and provided increased demand for goods and supplies. The birth rate in the entire world was rising annually, and in this country the increase was incredible. For the last half of the century there had been no major war nor pestilence to reduce the population materially or to disturb the peaceful pursuits of man or the economics of a society based upon ever-increasing plenty. Natural resources in this country were abundant beyond dreams. A beneficent government encouraged the exploitation of such resources to an almost criminal degree. New lands which were rich and fertile were to be had for the asking. Means of transportation were extended to make new fields accessible. New sources of motive power were discovered and exploited to permit more readily the development of such resources. Inventive genius provided new and better materials for construction. Planners and builders conceived more and more interesting ways in which this vast store of materials could be utilized in a manner heretofore denied the majority.

As long as the people were able to partake so readily and profligately of this untold accumulation of natural resources, to apply it to their needs and desires, and thus to convert it into circulative wealth; as long as there was no major nor extended economic disturbance to dissipate such increase in national wealth; and as long as they enjoyed an increase in population sufficient to support this expansion and to help continue it, a great many of the people were privileged to react in ways which since have proved disastrous to the value of real property.

Bringing the discussion from the abstract down to the concrete, it has been observed that in every community there were fortunate citizens who, by reason of unusual prosperity, became dissatisfied with the housing of their families, business establishments, or other activities. It is only natural to crave that which is more modern and better calculated to gratify human desire by setting the individual apart from his fellows. Many such people virtually abandoned housing which was perfectly adequate from the physical standpoint and built new homes in ostensibly more desirable locations. It was usual, of course, to dispose of the former holding before constructing the new, but this was not a material deterrent since the demand existed. The property which no longer retained its desirability to the original owner readily met the needs of the less fortunate, attuned by environment and circumstance to a lower standard of living. The increasing purchasing power of the masses thus added continuously to the scope and cycle of change that appeared to be unending.

The period of the World War served to aggravate the condition by bringing an abnormal demand for nearly all goods and thus creating a pseudo-prosperity during which the manifestations herein pointed out were further aggravated.

When it is realized that these conditions obtained throughout the lives of most of the present older generation, that most adults today grew up in that atmosphere, and that the reasoning of great minds to whom we turn for counsel was affected by the long duration of these conditions, it becomes evident that the past offers but a poor pattern from which to forecast the future in this day when fundamental changes in our social and economic fabric are taking place so rapidly.

THE CHANGING PICTURE

Today, it is found that our economic picture has been altered materially. Severe restrictions of immigration, a rapid decline in birth rate, the depletion of readily available natural resources, the

development of manufacturing and production facilities out of harmony with distribution means and consumers' incomes, and other correlated causes have all conspired to bring about changes in economic conditions which would seem to be of a rather permanent nature and which are at least destined to have a profound effect upon real estate, the real estate market, and real estate appraising.

The advisability or efficacy of the restriction of immigration is not on trial in this discussion. Were the restrictions lifted, it is not contended that conditions would be materially improved. It is definite, however, that the influx of millions of able, willing foreign people who were used to a lower standard of living during a time of vast industrial and commercial expansion had a far-reaching influence in helping to bring about the conditions under discussion.

It is significant that the unwarranted economic obsolescence of otherwise usable property is found in its most aggravated form in communities near the exploitation of natural resources. This condition is practically nonexistent in any other country. In Great Britain and Europe, residences are occupied by succeeding generations of the same family or of similar families until the physical life of the property is exhausted. Contrast that with the situation in Chicago where it is rare when even the second generation of a family is reared in the same building and where many substantial and serviceable dwellings are given over to rooming houses or other cheap occupancies for no other reason than that the owners through their fortunate condition of prosperity are able to indulge in properties that better suit their fancies.

The lack of increasing population which has been necessary to support this condition through restriction of immigration is augmented in a large degree by a rapid decline in the birth rate. Reliable authority brings forth the startling information that in the United States today there are 600,000 fewer children under ten years of age than in 1928 and 1,600,000 fewer than in 1933! Schools in nearly every urban center are showing a decline in the primary grades. Some experts contend that our population will become static within twenty-five years; others insist that it will be even sooner. While it is true that some of the loss in population is offset by the increase in the span of life through the advance of medical science, the conclusion is patent that we are becoming a nation of older people. It is only natural to presume that the large body of real estate investors will be older and in consequence more conservative and better settled in their tastes, habits, and reactions. Countless of these people have learned through the period of the depression that the house does not make the home and that happiness and contentment may be engendered in the old house quite satisfactorily, and the assumption of new indebtedness for a more modern habitation is comfortably avoided.

All of these observations add up to the conclusion that the economic life of real property is destined to be extended materially, that mere years are going to be far less a stigma, and that there is a definite tendency toward exacting utility from a property through all the years of its physical life. New construction will be confined largely to the replacement of structures hopelessly obsolete and those destroyed by fire and other casualties except in those communities enjoying an increase in population at the expense of other sections. In many localities the prospect for new construction right now is very poor. The so-called "buyer's strike" in the building industry is merely a straw in the wind.

The nationwide publicity sponsored by the government and directing attention to the possibilities that are found in remodeling old structures is an indication of the swing of the pendulum toward extension of the period of economic life. In many cities it is becoming popular among people who are financially independent to take over a well-built, well-

located old home or apartment building and to rehabilitate it with modern conveniences for their own occupancy or for a much improved type of tenant. An example of this may be found in Charleston, South Carolina, where old frame residences antedating the Civil War are being remodeled for owner occupancy in spite of the fact that indigent tenants in dilapidated buildings still abound in the neighborhood. There seems to be a definite urge on the part of many people to reclaim and make use of the many years of effective life remaining in these old buildings which a short while ago seemed doomed to slow decay.

Another interesting feature is found in the insistent demands that in new construction materials of longer life and better quality be used. Construction standards have been raised. Government inspired financing institutions are insisting that building practices and methods be used which will insure a much longer life than heretofore. Many improved and more durable materials are available for building construction now than ever before.

All of these evidences and others that could be offered strike at the premise that the future will imitate the past. They demonstrate effectively that the ability is not given to any appraiser to predict with any degree of accuracy the economic life expectancy of any property except in those rare instances where the end of utility is certain upon the basis of data immediately at hand.

It is evident that the appraising profession should acknowledge the facts and at once set up appropriate adjustments in the appraisal process and technique to conform to the changed conditions. Destructive criticism of a time-honored institution would be unfair if constructive suggestions were not offered which are intended as corrective measures.

It would appear that the technique of appraising could be adjusted very readily to the changed conditions without a major operation being indicated.

A SUGGESTION

The procedure which follows has not borne the weight of extensive trial and use but is offered as a device which obviates the necessity of the appraiser setting up untenable assumptions and which is better suited to the mental reactions of the public.

It is axiomatic that in every appraisal the existence somewhere of a typical purchaser for the subject property is presumed. It would seem to be logical that the appraisal technique employed in rendering an opinion of value should be in accordance with the mental processes which that typical purchaser would be likely to undergo in the event he were contemplating the purchase of the property. In considering the property, the prospective purchaser would scrutinize carefully the income and operating expense statement; he would make certain that there were ample deductions from the income for the proper care and maintenance of the building so that the desired type of occupancy could be maintained; he would make certain that sufficient sums were deducted to make replacements of those parts of the building which experience has shown will wear out sooner than the wall structure of the property. With such an adequate program of management, the only threat to the indefinite continuation of enjoyment of the net income would be the slow physical deterioration of the wall structure and future functional and economic obsolescence. Let it be recorded here that no attempt is made to forestall the assessment of any functional or economic obsolescence which is evident at the time of appraisal. Likewise it would be prudent to make appropriate deduction for any such obsolescence in the future which is predictable upon factual data at hand. Any forecasts or predictions beyond those limits are highly conjectural and should not be indulged in. It is most certain to be increasingly dangerous to charge off anticipated obsolescence merely upon the

basis of some pattern of past experience on similar properties.

Such a treatment of the income and expense statement would give assurance to a prospective investor that the indicated return would be net above every deduction which even an expert is capable of predicting except the annual physical deterioration. The factor of annual physical deterioration is rather easy to determine since the various building materials depreciate according to their nature at a rather definite degree each year as displayed by past experience. There is nothing to indicate that such rates of deterioration will change to any extent in the future. Various authorities and the appraiser's own experience may be depended upon for a reasonably accurate estimate of physical life. In order to provide against the slow but sure depreciation of the capital investment through physical deterioration, it is proposed that a further deduction from the income be made for the purpose of setting up a sinking fund which, when invested at a safe rate, would return the capital investment at the expiration of the period of anticipated physical life. The resulting remainder would be treated as pure net income in much the same manner as a dividend on stock or interest on a mortgage investment. It may be capitalized in perpetuity at a rate consistent with the return on comparable investments in other fields.

In seeking the rate which is commensurate with the risk involved, it is but fair that the real estate investment be weighed in the same scale as other types. When the investor is considering the purchase of a listed stock, he seeks to be assured as to the reasonable safety of the capital investment and as to the anticipated income return for a reasonable time in the future; but in his mind he considers the rate of return as being in perpetuity. He does not demand that a portion of the invested capital be restored to him each year, a burden which has been imposed on the real estate investment in appraisal practice. Yet he is offered no definite protection against the wasting of the capital investment in the stock. No authority is in a position to give assurance as to the greater safety of capital invested in any "blue-chip" stock for an indefinite period than that of capital invested in real property where adequate measures are set up to insure that repairs and replacements will provide continuous operation almost indefinitely. Too long have appraisers viewed substantial and well-designed real property in the light of a rapidly wasting asset, meanwhile setting up measures to defeat nearly all predictable shrinkage in value.

The mechanics of capitalization in perpetuity are not highly involved. They are easily understood by laymen. The least to be said of the suggested procedure is that it seems to be in keeping with the manner in which the typical purchaser and the average appraisal client view investments in general.

The highly technical appraiser shrinks from capitalizing in perpetuity when it is known that on some day no matter how far in the future an end will come to the net return. It is agreed that where the failure of net income is definitely predictable upon the basis of factual data at hand at the time of appraisment the suggested treatment would not apply. In such a case the anticipated stream of income for the definite period would be capitalized in the usual manner as a term annuity. However, such cases would be exceedingly rare. It would seem indisputable that the prediction of the expiration of economic life based upon facts beyond those pertinent to the property is not justified.

It may be contended that in the latter years of the physical life of a building the net income tends to shrink by reason of a lessening in desirability in spite of the fact that the building is well maintained. This may be admitted, but it is reasonable to suppose that under such conditions the expenditures for replacements would become correspondingly less so that the net income would be pre-

served. A large amount of the physical depreciation suffered today by old buildings which were constructed substantially has been occasioned by the lack of adequate care and management. In the suggested treatment this condition has been fortified against by the allocation of adequate sums for repair and replacement.

This suggested departure from the rather well-organized routine of appraising which has been laid down by the pioneers of thought in the profession is not as radical as it may seem at first glance. Taking the case of a new and modern, brick or stone, well-built and well-designed apartment building, it would be conventional to assume an economic life for the property of about sixty years and to capitalize the income return upon such a basis. If the appraiser were to assume an economic life of one hundred years or perpetuity for that matter, the resulting computation would be so little more than in the previous case that it would be within the zone of error permissible in any appraisal. The widest divergence of results would be found in the appraisal of properties from twenty to forty years old, wherein the definite end of the physical life of the property is not immediately determinable. In such cases the appraiser would find it necessary to make provision for the repair and rehabilitation of the property to such an extent that the building may be deemed to have suffered no more than normal physical deterioration. When the appraiser has made the appropriate charge of the annual sum for each year of effective life which is necessary to restore the capital investment at the expiration of physical life and when he has made the appropriate charge for functional and economic obsolescence which is definitely determinable at the time, it is believed that the capitalization of the remaining net income in perpetuity will provide a more logical approach to the opinion of value.

The suggested change in the technique of capitalization would tend to remove one of the most highly speculative elements in the appraisal of income-producing property. The ability of even an expert in the appraisal of property to set a definite number of years during which a property will continue to produce a net income has been notoriously difficult to establish in the minds of courts, juries, and laymen. Such a practice smacks of clairvoyance. The position of the appraiser in defending the practice on the contention that "experience has proven it" or that "it is generally agreed among qualified appraisers" is weak and renders his testimony or his appraisal report highly vulnerable to attack.

The profession of appraising real property has made remarkable progress in establishing a workable technique of valuation. A study of the evolution of the methods practiced by the well-informed appraiser today shows that the profession has been quick to sense social or economic changes which affect value and to reform appraisal procedure to suit the altered conditions. It would seem prudent at this time to give due consideration to the unmistakable evidences that in the future the economic life of well-constructed buildings may be expected to approach much nearer to the physical life.

Deduct for Taxes

By IVAN A. THORSON, M.A.I.

BECAUSE the state and Federal governments do not levy a capital (ad valorem) tax on real estate, the general belief seems to be that real estate does not pay any state or Federal tax. Many appraisers appear to labor under this delusion and overlook the fact that there are other taxes to be deducted from the income of real estate besides the local ad valorem tax before the net income may be capitalized into value. For example, the net income from real estate, after the local taxes have been deducted, is subject to precisely the same state and Federal income taxes as the same income from any other taxed items, although the latter may not be subject to any local tax. In many cases, the state and Federal taxes levied on the *income* from real estate are even greater than the *ad valorem* tax. If the landholdings are incorporated, the corporation is subject to all taxes levied on corporations engaged in any other kind of business. If the income from such corporation is derived solely from its real estate and tangible personal property, the income taxes (state and Federal) and other taxes virtually become taxes against the property of the corporation and, like the ad valorem tax, must be deducted from the net income to find the amount which is capitalized into the property's value.

The following examples (pages 235 and 236) will serve to illustrate this point.

Property A, Incorporated, has its entire capital tied up in a manufacturing plant, including the land, and is engaged in the manufacture of rough castings and various kinds of heavy mechanical equipment. The buildings are inexpensive; one-story, sheet-iron affairs spread over considerable land. The ground area comprises about two acres located in the older, close-in industrial district of Los Angeles.

During the years of 1933, 1934, and 1935, there was little demand for the company's product. As a consequence, losses were sustained in each of these years. Although production was carried on at less than 50 per cent capacity, the finished product accumulated rapidly. In 1937 this accumulation was disposed of at about 60 per cent of its fair price, but the company still showed a profit for the year of $100,000.

Since the establishment of the Central Manufacturing District in Los Angeles, the property is no longer located in the most desirable district. In fact, the district may be classed as blighted. The only other use to which the property might be devoted with some prospect of success would be that of warehousing. However, warehouse space in this section commands only one half cent per square foot for this type of construction which hardly pays taxes on the present assessed valuation, which, only too often, is arrived at without the slightest regard to the income from the property.

There are thousands of properties throughout the nation in the same category and in the same predicament as Property A.

It is obvious from the figures shown that the corporation would be subject to no income tax except for the year 1937. Our calculations for 1937 incidentally show the inequitable character of the Undistributed Profits Tax,[1] which makes no allowance for losses taken in preceding years. Any distribution of dividends in 1937, when a profit was made, would, under the circumstances, be out of the question because of the heavy impairment of capital during the years 1933, 1934, and 1935—hence the Undistributed Profits Tax for 1937.

FURTHER OBSERVATIONS

Note Columns B and C of Example I.

[1]This tax has been somewhat modified since this checkup was made.

The so-called "assessed value" has remained practically the same regardless of the income derived from the property, while the tax rate has advanced materially since 1934.

A contemplation of Column D, taxes paid by the corporation on the fictitious and stereotyped real estate "values," explains the statement of academic tax theorists that real estate taxes are especially desirable because of their *dependability*—that "through prosperity and depressions they remain practically constant." The fact that the taxes are levied against this real estate with absolutely no reference to the benefits received from it seems to have escaped these tax theorists entirely.

If productivity is ignored and the value based solely upon historic costs, or on physical bulk or area, or on the price paid at some time for the land, regardless of the property's productivity, "dependability" or stability of "value" from year to year can be easily established.

Furthermore, in the light of the state and Federal taxes levied on Property A, Incorporated, the fallacy of the contention of the nonproperty owner becomes apparent, viz.: that expenses of local government should be carried mainly by the property owner because "property is exempt from state and Federal taxes." [3]

In 1937 Property A paid a Federal Normal tax and a Federal Undistributed Profits Tax as well as a State Franchise Tax in addition to its $21,885 ad valorem tax. These state and Federal taxes amounted to considerably more than the ad valorem tax and had to be deducted from the $78,115 net income (before state and Federal taxes) for that year. The company paid no income taxes for the other years as there was no net income.

As shown, Property B paid state and Federal income taxes for the years 1936

EXAMPLE I

A Five-Year Tax History of PROPERTY A, INCORPORATED
(Owned by Manufacturers of Heavy Mechanical Equipment)

YEAR	A Loss or Gain before Interest and Taxes	B Assessed Value (Local)	C Ad Valorem Tax Rates (Local)	D Taxes (Local)	E State and Federal Taxes	F Net Gain or Loss
1. 1933	−$ 40,000	$500,000	$4.35	$ 21,750		−$ 61,750
2. 1934	− 30,000	450,000	4.25	19,125		− 49,125
3. 1935	− 25,000	450,000	4.32	19,440		− 44,440
4. 1936	+ 5,000	400,000	4.40	17,600		− 12,600
5. 1937	+ 100,000	455,000	4.81	21,885	$25,843	+ 52,272
Five-Yr. Totals	+$ 10,000			$ 99,800	$25,843	−$121,763

Total taxes, $125,643 ($99,800+$25,843), less net income, $10,000,=$115,643, loss.

The state and Federal taxes were $25,843.04 for 1937 (on $78,115, which is the $100,000 income less local taxes of $21,885), made up as follows (the 1937 Undistributed Profits Tax made no allowances for previous losses):

[2]State Franchise (Income) Tax	$ 3,124.60
Federal Normal Tax	10,088.56
Federal Undistributed Profits Tax	12,629.88
Total State and Federal Taxes	$25,843.04

[2]In California the state corporation income tax is masquerading under the name of "Bank and Corporation Franchise Tax." The "franchise" part of it amounts to only $25 on corporations and is paid regardless of net income. The state and Federal taxes obviously are not paid until the year following the one in which the taxed income has been earned. In the examples presented they are deducted in the year to which they apply in order to arrive at the actual net income from the appraised property for that year.

[3]The Federal Government is constitutionally prohibited from levying a *direct* (which is construed to mean a *capital*) tax except upon a population basis. To change this would probably require a constitutional amendment.

and 1937. In both years, these state and Federal taxes exceeded the ad valorem taxes.

It is obvious, therefore, that the ad valorem tax is not the only tax which must be considered in arriving at the property's value for investment purposes. What these nonproperty owning champions of an *unlimited* ad valorem property tax overlook is that real estate and tangible personal property are subject to a *local* tax on their *capital value* and to a *state* and *Federal* tax on their *net income.*

Owners of "nontaxables" are subject to the second type only—that is, a percentage tax on the net income. Real estate is subject to both forms of taxes. In California, the capital value of mortgages, for example, is not taxed. A $500 income from a $10,000 mortgage would be taxed but a few dollars. The investment itself would not be taxed, while an investment in real estate, assessed at $10,000, would in Los Angeles be taxed at 4.81 per cent, or $481 (the tax rate on property for 1937 being $4.81 per $100 of value), and, if there were an income from the real estate, it would be subject also to the state and Federal income taxes on such income, precisely as would income from any other source.

With money worth 5 per cent, a *capital* amount is twenty times that of the *income;* 5 per cent on the $10,000 capital value of the mortgage would amount to $500, while 5 per cent on the $500 income would be $25.

There is a similar confusion obtaining in regard to the California 3 *per cent* "sales" tax and the 3 *cents* "specific" (excise) state tax on gasoline. The latter, in terms of a sales tax, would average over 20 per cent. No doubt this confusing 3 *cents* with 3 *per cent* accounts for the public's condoning without much squawk the enormous tax on gasoline, a commodity which is distinctly a social necessity.

With the 1 per cent Federal tax on gasoline, the total tax on gasoline in terms of a sales tax is equal to about 30 per cent.

A suggested technique to employ in evaluating different types of properties,

EXAMPLE II

A Five-Year Tax History of PROPERTY B (Corporation Owned)

YEAR	A Loss or Gain before Interest or Taxes	B Assessed Value (Local)	C Ad Valorem Tax Rates (Local)	D Tax (Local)	E State and Federal Taxes	F Net Gain or Loss before Interest
1. 1933	− $ 7,000	$50,000	$4.35	$ 2,175		− $9,175
2. 1934	− 3,000	50,000	4.25	2,125		− 5,125
3. 1935	− 2,000	40,000	4.32	1,728		− 3,728
4. 1936	+ 10,000	35,000	4.40	1,540	$1,990	+ 6,470
5. 1937	+ 12,000	30,000	4.81	1,443	2,663	+ 7,894
Five-Yr. Totals	+ $10,000			$ 9,011	$4,653	− $3,664

State and Federal taxes for the years 1936 and 1937 were levied on the amounts in Column A, less amounts in Column D, for the specific year as follows:

YEAR	G Amounts Taxed Col. A—Col. D	H California State Franchise[3]	I Federal Normal Tax	J Federal Undistributed Profits Tax	K Total
1936	$ 8,460	$338.40	$ 833.38	$ 819.09	$1,990.87
1937	10,557	422.28	1,054.82	1,186.38	2,663.48

(The Undistributed Profits Tax is levied after the State Franchise Tax and the Federal Normal Tax.)

taking the taxes into account, is shown on page 245.

THE TAX CAPITALIZATION THEORY[4]

The tax capitalization theory has been much discussed by Professors H. G. Brown, E. R. A. Seligman, Harley L. Lutz, and others in the *American Economic Review* and in various other magazines, as well as in their own publications. Under the capitalization theory, as advanced by some of these writers, it is held that *the capital value of a property is reduced by an amount equal to the capitalized tax* and that *a subsequent purchaser of the property buys it virtually tax free.* As to the general theory that taxes are capitalized, there can be no argument. Any deduction from the income from a property, or from anything else, is in effect capitalized. Thus, when deductions are made of wages paid to help, or of sums paid out as operating expense, the sums or amounts so paid are automatically capitalized and deducted from the value.

If we accept value as being the *"present worth of future benefits arising out of ownership,"* we agree that the capital value of a property is arrived at *solely* by capitalizing its future *benefits* (a general term for productivity, utility, or income). In other words, the property's value is found by capitalizing the net benefits accruing from it by a rate which in the appraiser's judgment is an acceptable return from the property considering the hazards involved.

The *net* benefits or income from a property is its gross income, less operating expenses, less depreciation (both physical and economic), less taxes (local, state, and Federal), and less any other items of expense which are necessary to maintain the property adequately as a going concern. (See page 246.)

AMOUNTS AND RATES

Some of these items are ascertainable sums or amounts, which, therefore, may be deducted directly from the gross income. Such are, for example, the operating expenses, including insurance, maintenance, etc. Other items of expense, such as depreciation and taxes, may be a certain *percentage* of the value of the property. This value, by the way, we do not as yet know. It is what we are attempting to estimate.

Reducing the above statements to an equation, and assuming that we have deducted all *ascertainable* items of expense from the gross income, designating "I" as the income remaining after such deduction (that is income before amortization and taxes), we have:

$$\text{V (value sought)} = \frac{\text{I} - (\text{Ar} \times \text{V}) - (\text{Tr} \times \text{V})}{\text{R}}$$

(Form 1)

"Ar" is the rate of amortization (to take care of both physical and economic depreciation). "Tr" is the taxation rate (including local, state, and Federal).[5] $(\text{Ar} \times \text{V})$, therefore, is the *amount* of amortization, and $(\text{Tr} \times \text{V})$, the *amount* of taxes. We are lumping together all types of amortization and all classes of taxes so as to show more compactly the principle involved. Instead of *deducting* the *amounts* of amortization and taxes, respectively, from the income (I), we may *add* the *rates* (Ar) and (Tr) to the capitalization rate and obtain the same result. Our equation would then read:

$$\text{V} = \frac{\text{I}}{\text{R} + \text{Ar} + \text{Tr}}$$

(Form 2)

This may be proven mathematically as follows: Multiplying both sides of "Form 1" by R, we have $\text{V} \times \text{R} = \text{I} - (\text{Ar} \times \text{V}) - (\text{Tr} \times \text{V})$. Moving the last two items in parenthesis to the left side of the equation, we have: $(\text{V} \times \text{R}) + (\text{Ar} \times \text{V}) + (\text{Tr} \times \text{V}) = \text{I}$, or $\text{V}(\text{R} + \text{Ar} + \text{Tr}) = \text{I}$. Dividing both sides by $(\text{R} + \text{Ar} + \text{Tr})$, we get "Form 2," or:

[4] For further information in regard to "Capitalization of the Real Estate Tax" and its application, see pp. 240 to 253 of *Facing the Tax Problem*, Twentieth Century Fund, Inc.; also pp. 549 to 551 ibid. for other references.

[5] The physical and economic depreciation may represent different rates, and local, state, and Federal taxes almost invariably do. The latter taxes at least would have to be figured separately.

$$V = \frac{I}{(R + Ar + Tr)}$$

To repeat, *deducting* the *amounts* representing the amortization and the taxes, respectively, from the net income (I) (net, before amortization and taxes) is equivalent to *adding* the amortization and tax *rates* to the capitalization rate.

This will illustrate our statement made above that *deducting an amount from the income is equivalent to capitalizing such amount.*[6]

THE "TAX FREE" IDEA

There is no new principle involved in the statement that *taxes are capitalized,* but it *is* new, as well as questionable, to state that through such capitalization a subsequent purchaser of the property buys the property *tax free.* It might just as well be said that, inasmuch as the operating expenses are deducted and therefore capitalized, a subsequent purchaser will buy the property free of any operating expenses.

In a sense, such a statement would be true, provided the operating expenses, taxes, and incomes remained indefinitely unchanged and if the nonshiftable taxes were invariably predicated upon a capital value arrived at through the capitalization of a nonvarying income. We know this cannot be so.

Dr. Jens P. Jensen, of the University of Kansas, contributes a ten-page dissertation on the subject of "Tax Capitalization" in the November, 1937, *The Bulletin of the National Tax Association.* He begins by apologizing for the "rather bootless polemics over issues that would have been eliminated by an acceptable definition of the process" and proceeds in a very clear manner to illustrate what is meant by such capitalization, employing the same mathematical principle as that given above in so doing.

Inasmuch as it is admitted that this theory is based upon assumptions which everyone acquainted with our present local tax processes knows are contrary to existing practices, one cannot help but get the impression that a great deal of able talent is being dissipated in useless discussion of hypothetical probabilities when there are so many unsolved practical tax problems crying for attention, especially in the local tax field.

SOME MOOT QUESTIONS

1. *Is market value the proper basis upon which to predicate real estate taxes?*
2. *Should potential value be considered?*
3. *Are cost appraisals necessary to secure uniformity?*

MARKET VALUE AS A TAX BASE

If *market value* is deemed to be the proper base, we are faced with some twenty definitions of this term in the statutes of as many states. However, practically all of these definitions, while purporting to define *market* value, actually define *productivity* or *utility* value. This is inevitable, inasmuch as real estate clearly cannot have market value in the sense that this term is applied to commodities and securities. Our California statute, which is typical, declares that market value is established only when a purchaser buys *"with a full knowledge of all the uses and purposes to which it is adapted and for which it is capable of being used"* (10 Cal. Jur., Sec. 54, p. 338). If this is not *utility* value, the writer does not know what is. The definition for the value sought in an appraisal generally cited by members of the American Institute of Real Estate Appraisers, calls for *"the present worth of the future benefits arising out of ownership"*—plainly making the property's productivity or utility the *sole* criterion of value.

Market value, as this term is applied to ordinary commodities and to securities sold in the marts of trade, needs neither statutory definitions nor court interpretations. We need no appraiser to tell us the price of bread, sausages, eggs, razor blades, etc. Their market value (price) is known, or may be ascertained, at any time

[6] Application of above equation is shown on page 246.

by anyone who wants to know. Too often such market value has but little relation to the intrinsic or use value of the goods bought and sold. Five cents per dozen may be the *market value* (price) of oranges, but this is no index to their *use* value, which would be exactly the same if they were sold in the market at fifty cents per dozen.

WE MAY HAVE TO CALL IT MARKET VALUE

However, if court decisions say that the name "market value" should be used when estimating a property's "utility value," that is what we shall have to call it. The decision of the United States Supreme Court in the case of *Cleveland, Cincinnati, Chicago and St. Louis Railway* v. *Victor M. Backus* did not mention market value when it ruled:

> "The value of a property results from the use to which it is put, and varies with the profitableness of that use. . . . There is no pecuniary value outside of that which results from such use. . . . The amount and profitable character of such use determines such value."

Noting the almost universal confusion in regard to the term "market value" as applied to land, Professor Bonbright, of Columbia University,[7] in a recent penetrating analysis of our present property tax system, refers to the assessors' and judges' practice of "hiding behind such simple vacuity as 'the sum of the estimable qualities of a thing'" and using such expressions as "true and actual value, without in any way explaining just what these terms mean." "They arise," he says, "to such sonorous bombast," in attempting to define the nebulous concept of market value of land as "a recognizable pecuniary value inherent in itself and not enhanced or diminished according to the person who uses it." Dr. Bonbright offers as the only excuse for attempting to rationalize the "welter of ambiguous and conflicting principles" existing in our general property tax structure that it might call attention to "the necessity of abandoning this outmoded tax," and he adds that "assessors and judges during depression conspire in a gigantic legal lie about property values—a lie which is concealed by all sorts of loose talk about the stability of real value as contrasted with the collapse of mere market prices." Dr. Bonbright concludes: "The law should abandon in words, as it has generally abandoned in fact, the dogma that Market Value constitutes the proper basis of tax assessment." He refers to the term "market value" as generally employed in connection with assessments as a "meaningless and delusive term" and that the "Market Value standard is inapplicable to unique types of property."

POTENTIAL VALUE

There also seems to be a general confusion concerning appraising for *investment* purposes and appraising for *taxation* purposes.

When we appraise for a long-term investment, we endeavor to find *the present worth of all future benefits or incomes.* But valuations for assessment purposes are made every year or two in most states, so there is no reason for taking *probable* or *possible* values.

A recent Kentucky Supreme Court decision (*Atlantic States Coal Corporation* vs. *Letcher County*) decreed:

> "In fixing the value of property for tax purposes, the criterion is not what it may be worth at some future date, nor what it may have been worth in the past, but what was its fair cash value on the date as of which it is assessed."

Dr. Paul Haensel in a recent treatise on taxation stated: "For using the expression 'Potential Value' in tax matters, people should be put in prison. Today you take potential value, and tomorrow you take potential value, and so every year. This is COMPOUND POTENTIAL VALUE!"

THE "UNIFORMITY" ARGUMENT

The argument most often heard in support of the prevailing system, that of

[7] James C. Bonbright, *The Valuation of Property* (1st ed.; New York: McGraw-Hill Book Company, Inc., 1937, 2 vols. 1271 pp.).

predicating value upon the *cost* instead of on the *warranted, justified income* received from the property, is that *only in this way can uniformity be obtained.*

Uniformity of what? Do we want uniformity of *cost* or of *value?* We may as well state that every person should be taxed alike because it would be easy to obtain uniformity in this way. Properties are like persons in this respect—they differ in their earning capacity. We may expend any amount of money to no avail on some people in attempting to develop their earning capacity, just as we may spend millions of dollars on a real estate project which may turn out to be a complete failure financially.

No doubt perfect "uniformity" may be secured by taxing all oil wells according to their cost, or on the diameter and depth of the holes, regardless of their productivity. You may say that this would be absurd. Is it not equally absurd to tax buildings upon the basis of their cost or according to their floor area and bulk regardless of their productivity? Is it not merely a silly habit which we have acquired, or is it possibly the result of the untenable Ricardian (land value) theory which is sometimes used an as *academic* formula for measuring land values?

It will be found that the only uniformity secured through the use of the assessor's method is uniformity in *area, bulk,* and *cost* and not in *actual values,* as is graphically set forth in the chart presented on page 363 of the October, 1937, issue of the JOURNAL.[8] The California Constitution demands uniformity in *values* and not in *cost.* Article 13, Section 1, of the California State Constitution, says: "All property in the State, except as otherwise in this Constitution provided, not exempt under the laws of the United States, shall be taxed in proportion to its value."

We know of no constitutional provision demanding that *cost* be made the basis of valuations for taxation purposes.

[8]Ivan A. Thorson, "Our Real Estate Tax Problem" (October, 1937, issue, *The Journal of the American Institute of Real Estate Appraisers,* pp. 357-364).

Was it Barrett Wendell who said that "what is the matter" is never as important as "what's to be done about it," or words to that effect. In the writer's article in the October, 1937, issue of the JOURNAL, the remedial *legislative* measures advocated by the National Association of Real Estate Boards were pointed out. It remains to be shown how the measure advocating a reform in the assessor's *valuation procedure* may be effectuated.

THE N.A.R.E.B. RESOLUTION

In a poll of thousands of the nation's tax experts, tax administrators, large property taxpayers, and of some six hundred tax representatives of the National Association of Real Estate Boards and the American Institute of Real Estate Appraisers, practical unanimity was expressed in regard to the necessity of changing, as soon as it could be done without too much confusion, our utterly absurd methods of taxing property. Dr. Seligman, of Columbia University, described our local property tax, *"as actually administered,"* to be *"one of the worst taxes known in the civilized world."*

In line with the recommendations received in the above-mentioned poll, a resolution was passed at the annual meeting of the National Association at New Orleans, November, 1936, calling for a change back to the *ad valorem* (according to value) system which most of our state constitutions and statutes prescribe, but which has been practically abandoned by the majority of our assessors who have substituted therefore a *specific* tax based upon *cost* instead of on *value.* This resolution reads as follows:

> "We propose in each state that the present system, erroneously referred to as an '*ad valorem*' tax on real property, be replaced by a system of taxation based on capital value established solely through warranted annual productivity, income or utility of real estate and that the taxation laws of the states be amended or rewritten for this purpose."

There was some objection to the word "solely," but it was pointed out that the

definition of property value generally adopted by the National Association and the American Institute of Real Estate Appraisers left no choice. It defines value as "the present worth of future benefits arising out of ownership." As stated, this definition clearly designates *benefits* as the *sole* basis of value. *Benefits* can obviously be interpreted only as meaning the property's *productivity, income,* or *utility.* The word *"warranted,"* however, was added to tone down the severity of the American Institute's definition.

Warranted income (productivity—utility) implies income which a property may justifiably and reasonably be expected to yield under good management and devoted to its proper use, whether vacant or occupied at the time of assessment. Warranted income further implies that consideration should be given to the demand for, and the supply and probable absorption rate of, different kinds and types of property. Vacant property under this provision will not escape being taxed.

While it is generally agreed that the proposed system should be inaugurated gradually by first applying it to *rental properties,* it should be noted that the wording of the proposal is so broad that all types of property may eventually be made to come under its provisions.

LEGISLATIVE ACTION SUGGESTED BY THE N.A.R.E.B. RESOLUTION

In line with the above resolution, the following is a suggested bill drawn as the result of thorough study of both foreign and domestic taxation systems. It has been extensively scrutinized and commented upon. It has been used as a model in a number of states in drawing legislative measures which have had for their purpose the institution of more rational appraising methods for taxation purposes.

General introductory statement:

An act to amend sections ..... of ..... relating to the method of appraisement for the purpose of taxation.

The people of the State of ..... do enact as follows:

The terms, "Value" and "Full Cash Value"[9] of real estate shall be ascertained by capitalizing the annual net average warranted productivity, income, or utility of real estate, at a capitalization rate of not less than 8 per cent, this percentage to include allowance for the physical depreciation of the property. (In some bills an explanation is inserted here of what is meant by "capitalizing" income.)

Inasmuch as almost every assessor seems to have a different concept of what is meant by "Full Cash Value," "True Value," etc., and, inasmuch as the majority of assessors employ a "cost-finding" method instead of a "value-finding" method in arriving at the value of real estate for taxation purposes, we are left without a properly defined tax base.

A statutory provision to define further what is meant by such nebulous terms as "Full Cash Value," etc. has therefore become necessary.

A three-year average suggested:

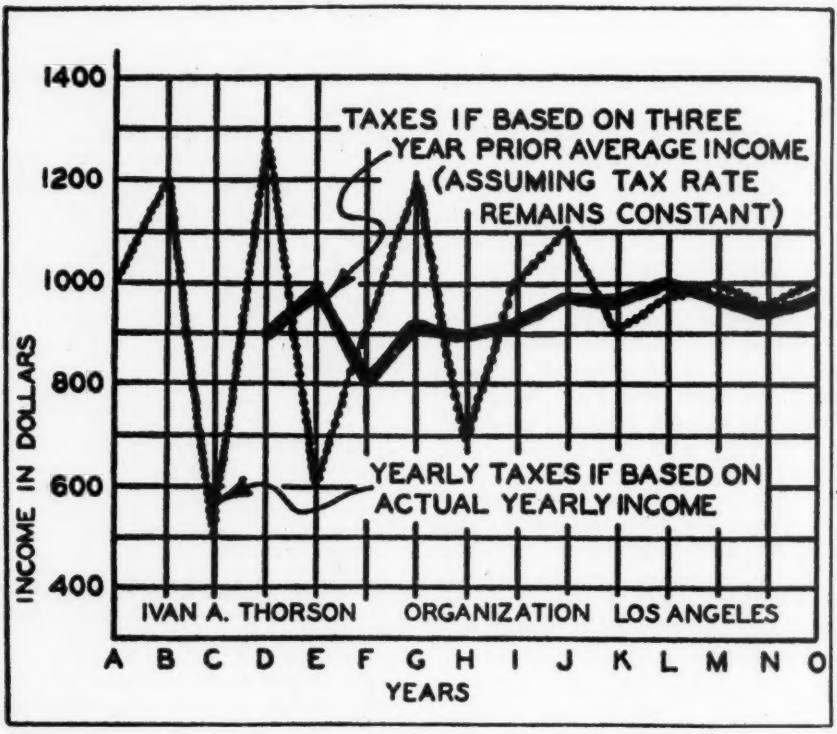
In determining the net average warranted annual productivity, income, or utility of the property, the assessor shall take into consideration the property's net earnings for a period not to exceed three years next preceding the date of assessment thereof and may require a verified statement of all gross income and of all expenses incident to the operation of the property for a term not to exceed three years immediately prior to the assessment. Failure of the taxpayer to furnish the assessor with such statement, or with any other statement in regard to the property, when required by the assessor so to do, shall enjoin such taxpayer or others affected by the assessment from contesting the amount of the assessment.

For the sake of illustration, the rise and fall in incomes for the different years are exaggerated in the graph shown on page 242. Basing the current annual taxes upon the average net income from the property for the previous three years, there is comparatively little fluctuation in the taxes from year to year. In the graph, the income varies considerably while the variation in the taxes collected is small. (The solid line represents the amount collected as taxes.)

[9]Substitute for the words "Value" and "Full Cash Value" the term or terms used in the statute of the state where the bill is introduced.

Special purpose and owner-occupied properties:

In case of improved properties where the improvement is such as to make it suitable for special purposes only, or where the property is occupied and/or used by the owner (yielding its utility directly to the owner), or where such improved property is temporarily vacant, such property shall be assessed in relation to the annual productivity, income, or utility of occupied property of like character, similarly situated, due consideration being given to the demand for and the supply of, and to the reasonable absorption rate of the type of property which is being assessed.


1400
1200
1000
800
600
400
INCOME IN DOLLARS
TAXES IF BASED ON THREE YEAR PRIOR AVERAGE INCOME (ASSUMING TAX RATE REMAINS CONSTANT)
YEARLY TAXES IF BASED ON ACTUAL YEARLY INCOME
IVAN A. THORSON ORGANIZATION LOS ANGELES
A B C D E F G H I J K L M N O
YEARS

A special purpose property is one which is adapted to a very special or limited type of occupancy only. As a result, it is difficult, sometimes impossible, to secure a rental even approximating the rentals which could be secured from properties which may be devoted to many purposes. Some properties of this type (for example, breweries after prohibition was inaugurated) often become valueless when the particular type of business for which they are built meets reverses or moves out. At times they even become liabilities and, to escape confiscatory taxes, are torn down to make space for parking lots or other vacant property occupancy.

Properties temporarily vacant would under this provision be assessed upon a valuation basis predicated on rentals which could reasonably be expected from an occupied property properly utilized and under good management, "due consideration being given to the demand for and supply of, and to the reasonable absorption rate of the type of property which is being assessed."

Where no similar properties are avail-

able for comparison:

Should there be available for income comparison no other property improved in like manner, of like character, and similarly situated, then the replacement cost of an adequate improvement may be regarded as determining the use or utility value of owner-occupied buildings. Items which do not add to the property's usefulness or earning power shall not be included in the valuation of any property.

When an owner occupies and/or operates his own property (as in the case of homes occupied by owners, manufacturers or public utilities operating their businesses on their own premises, etc.) and where similar properties are not available for comparison, the replacement cost is a fair index to the *use value* of the property to the owner-occupant.

The wording of the act permits the consideration of any factor which gives an index to the property's *use* or *utility value* where no income comparison is possible.

If the occupant did not own the premises, he would have to buy or lease another property which would furnish him with the necessary facilities to operate his business or in which to live. However, unless he could give an unequivocal "Yes" to the question—"If I did not have this property, would I buy or build another one just like it in this particular spot?"—it is evident that to him the property would not be worth its reproductive cost, and the probabilities are that it would not be worth its replacement cost to anyone else. In any event, items which do not add to the property's earning power should be eliminated if replacement cost is to be considered a fair index to the property's use value.

Vacant urban property in congested districts:

In the valuation of vacant and unused property in the congested district in any incorporated village, town, or city, such property shall be appraised with reference to utilized property of like character, similarly situated; due consideration being given to the demand for and the supply of, and to the reasonable absorption rate of the type of property which is being assessed. (A statement of what is meant by "congested district" may be inserted here.)

Vacant property in the congested district represents a very difficult problem at the present time. It has been supposed that all vacant properties within the limits of the built-up portion of the city were potential sites for profitable business buildings or desirable residential structures. We know only too well that such is not the case. We have thousands of almost worthless properties close-in to town in the so-called blighted districts—both business and residential. This is real estate's great unsolved problem. However, we are certainly not solving the problem by taxing these properties as though they were profitable units. We are merely adding such properties to the large number already defaulted.

The problem of buildings for which there is no longer much use (and there are many of them even in the heart of cities) is very similar to that of unused lots in close-in districts of our downtowns. In the same block there may be a highly profitable property, and adjacent to it there may be another property which represents an outright liability because of our absurd *cost-is-value* assessment system.

Vacant subdivided land outside of congested area:

In the valuation of property consisting of unused tracts or vacant subdivided and platted lots, in any incorporated village, town, or city, and outside of the congested district thereof, the taxable value thereof must be ascertained with relation to the average warranted earning power of unplatted and unsubdivided land of similar character and similarly situated.

This article is self-explanatory. There is no adequate reason why land suddenly becomes more valuable just because some lines have been drawn on a map. Such subdivided land has often proved itself eventually entirely valueless. Nevertheless, it is only fair that subdividers withdrawing good agricultural land from cultivation should at least have to pay a tax on the valuation which the land had be-

fore it was subdivided. Taxing vacant subdivided land as though it were improved merely piles up the cost to the prospective home owner.

Furnished rental units:

Should the property taxed be in the category of industrial, income, or rental properties, and such property be equipped and furnished in whole or in part with movable or removable equipment and furnishings, two thirds of the annual depreciation of such chattels shall be allowed as an expense in arriving at the warranted net income from the property.

Note provision which permits that two thirds of the annual depreciation of furniture and equipment be deducted from the gross income as an item of expense. It should be observed that furniture and other equipment come in the category of personal, marketable property, the market price (replacement cost) of which may be found in the usual way. The annual depreciation, therefore, is a proper item of expense and should be deducted with other expenses from the gross income to arrive at the net.

Other provisions:

Except where a constitutional provision otherwise provides, a section should be added which would demand that land and improvements thereon should not be separately assessed.

The improvements, economically, legally, and actually, have become real estate, a corporate part of the land, and, therefore, should not be separately assessed. To attempt to sell the building without the land would be ridiculous. In most cases what could be realized from the salvage would be considerably less than the cost of tearing down the building. In other words, to value the land and building separately would be equivalent to assigning a separate value to the front and rear part of a horse.

An improvement is worth what it adds to the land value, and nothing more. A toll bridge would be an exception—the land not being involved. As to assessing cultivated and uncultivated land the same, as is the procedure of some assessors, this is absurd on the face of it. Such practice disregards all work of clearing and otherwise preparing the soil for use.

IMPORTANCE OF CONSIDERING DEMAND AND SUPPLY AND ABSORPTION RATE

It will be noted that there is a constant repetition of the provision that "due consideration shall be given to the demand for and supply of, and to the reasonable absorption rate of the type of property which is being assessed." The importance of this provision cannot be overemphasized. *Rent* (that is, price) paid for ground area or floor space, like *interest*, is almost entirely dependent upon the demand for and supply of the particular kind of ground area or floor space sought. The provision that "due consideration shall be given to the reasonable absorption rate of the type of property which is being assessed" is equally important.

After all, it would not be fair to tax all vacant property the same as "occupied property of like character, similarly situated," although this is the Single Taxer's idea of proper taxation. How ruinous such a procedure would be may be concluded from the fact that in practically every large city there is zoned for commercial and industrial use many times as much of such frontage as can possibly be absorbed by the specific use for which it is zoned.

To construct an office building on every lot so zoned in any large city would have the effect of adding a ruinous amount of office floor space to an already national surplus of about 20 per cent. This same result would be true, but in a still greater degree, if vacant lots zoned for lots or warehouses were improved with the type of structure for which they are zoned.

It is essential, therefore, that "due consideration be given to the demand for and the supply of, and to the reasonable absorption rate of the type of property that is being assessed."

Progressive assessors increasingly favor the relinquishment of the present unsound valuation system. Assessors should be given ample time in which to adapt them-

selves to the changes provided. The proposed system would greatly lighten the assessors' work as the larger part of these data would be furnished by the owners themselves.

HOW PROPERTIES IN BLIGHTED DISTRICTS MAY BE HANDLED

In the following will be given some examples of the application of the principles considered in the foregoing. Property C obviously would be classified as a special purpose property.

PROPERTY C (INDIVIDUALLY OWNED)
THEATRE BUILDING

(Four blocks from the downtown hot spot)

Six-year average net income	$2,500
Taxes during this time averaged about	$6,300

At the time these data were gathered this theatre building was under lease to a responsible person at $10,000 per year, so that his actual annual loss was $13,800. He could not let it go for taxes because his contract demanded that he keep the theatre in active operation, and, of course, he would have had to have paid the $10,000 annual rent anyway.

As noted, an appraisal for taxation purposes differs from an appraisal for investment purposes in that the present warranted income alone is pertinent in the former because of the fact that frequent appraisals are legally required. An appraisal for tax purposes, consequently, is much simpler than an investment appraisal. In this particular case, *obviously there is no reason to allow for any depreciation on the building* as the building is worthless. In fact, the land would be worth at least $10,000 more as a parking lot were the building removed, but it is built of concrete and steel, and the estimated cost of wrecking the building is $35,000. So, it remains standing, at least for the time being, and is being taxed as noted. Therefore, we are making the whole property residual, predicating its value on the average warranted net income of $2,500 per year before taxes.

The theatre building cost approximately $270,000 and is ten years old. (Appraised at 50 per cent of "full value," *allegedly*.)

Land (assessor's figures)	$ 40,000
Building (assessor's figures)	102,760
Assessed "Value"	$142,760
Present taxes	$ 6,300
Average net income during past three years, per year, before taxes (under able management)	$ 2,500

WHAT WOULD BE THE PROPER TAX BASE?

Let V = Value sought.
I = Three-year average net income before amortization and local, state, and Federal taxes. (See page 241.)
TR = Tax rate (TR × V = Tax).
R = Capitalization rate (fair per cent of profit to the owner).

Then V (value sought) $= I - \frac{(TR \times V)}{R}$

This equation will reduce to $V = \frac{I}{R + TR}$

If R be 6 per cent and TR, 4.4 per cent, we have: (net income)

$V = \frac{\$2,500}{.06 + .044}$, or $V = \frac{\$2,500}{.104} = \$24,038$ (tax value of property based upon earnings as above indicated).

Owner's return ($24,038 at 6%)	$1,442
Equalized taxes upon new basis ($24,038 at 4.4%)	$1,058
	$2,500 per yr.

Owner is conceded 6 per cent net profit on present reduced income value of the property and should pay taxes upon the same value basis.

In cases where the building has an obvious value above the lot value, but less than its depreciated replacement cost, the building value should be made residual, after allowance has been made for a proper return from the land, such land value being estimated by comparison with other similar lots, as above.

Obviously there will be no state nor Federal tax on Property C as it is now assessed. Even if it were assessed upon the basis of $24,038 as suggested above, the exemptions would more than take care of the owner's return unless a single person owned the property or if the owner had other income which, when added to the

$1,442, would bring it under a taxable income.

THE DIFFERENCE IN THE BASES UPON WHICH THE VARIOUS TAXES ARE PREDICATED

While the appraisal of a property, where the income is less than the outgo, is a comparatively simple process, as in Property C, it becomes more involved when state and Federal taxes enter into our calculations. The presentation here is primarily to suggest a method of estimating the value of properties for general purposes, taking into consideration all proper deductions from the gross income, with particular reference to the many forms of taxation affecting real estate values.

Obviously:

$$\text{(Value sought) (V)} = \frac{\text{(1) (Gross Income)} - \text{(2) (Operating Expenses)} - \text{(3) (Amortization)} - \text{(4) (Local Tax)} - \text{(5) (State Tax)} - \text{(6) (Federal Tax)}}{\text{(7) (Selected Capitalization Rate)}}$$

Item (2) represents a more or less definite ascertainable amount. It includes the wages, repairs, insurance, fuel, light, etc. This item is usually deducted from the gross income *before* proceeding further with the calculations. The remaining income we have previously designated by the letter (I).

Items (3) and (4) should be percentages of (V), that is, *a percentage of a value yet to be determined.* On the other hand, items (5) and (6) are percentages applicable to an entirely different base, to the *income* from the property in its various stages, and these percentages also vary with the type of tax. Items (5) and (6), therefore, cannot be correlated with items (3) and (4) nor included in a solvable equation as we then would have a single equation with at least three unknown quantities, instead of only one undetermined quantity as in the equation:

$$V = \frac{I - (AR \times V) - (TR \times V)}{R}$$

which resolves into $V = \frac{I}{R + AR + TR}$

In this equation (AR), (TR), and (R) are all *fixed* or *selected factors;* (V) alone is unknown.

It has become customary, therefore, first to find the value of a property without reference to the state and Federal taxes and then to deduct from the net income the state and Federal income, franchise, and other taxes, although under this method the property owner gets a little the worst of it.

PROPERTY D

In the following example, Property D has a net income after the local capital tax has been deducted, which income is therefore subject to state and Federal taxes.

We shall assume Property D to be an ordinary unfurnished business property in an outlying district and the total warranted net income from it to be $10,000, before depreciation, amortization, and taxes (local, state, and Federal).

Similar land, properly utilized, shows a value of $20,000. Therefore, we shall assign a $20,000 value to this land. We shall also assume that there is no depreciation of the land. Allowing 6 per cent (.06), or $1,200, as a proper return on the land, there remains a warranted net income imputable to the improvement of $8,800. We shall assume further that the local tax is levied on 50 per cent of the appraised value.

A building, old or new, is worth what it adds to the land value. The amount which the building adds to the land may be found by making the building value residual (except where the building is obviously a proper improvement).

Thus: $V = \frac{I - (AR \times V) - (TR \times V)}{R}$,

or $V = \frac{I}{R + AR + TR}$

Where:

V=Value sought (disregarding state and Federal taxes).

I=Warranted net income (before amortization, interest, and all taxes).
TR=Local tax rate (½ TR if 50 per cent valuation is called for).
AR=Amortization rate (predicated on remaining use life and condition of building).
R=Capitalization rate (selected by appraiser).

Let us assume that the tax rate is 5 per cent (.05) (on 50 per cent valuation, it would be 2½ per cent), the amortizing percentage, 1½ per cent (.015), and the capitalization rate, 7 per cent (.07)—all predicated on the value (V) yet to be found. We noted above that the residual income imputable to the building was $8,800. All percentages and amounts, except V, are known or are estimated by the appraiser. Substituting the known percentages and amounts in the above equation, we have:

$$V=\frac{\$8,800}{.07+.015+.025}, \text{ or } V=\frac{\$8,800}{.11},$$

or $80,000 (the residual building value)

Note that the tax, amortization, and interest return on the building are calculated on the value "yet to be found." Prove the computation by subtracting from the warranted net income the *tax* (TR×V), as well as the annual amortization amount (AR×V), and divide the remainder by .07 (capitalization rate). You will get $80,000 for the residual building value, as above.

Adding the $20,000 land value, we find the total value of the property to be $100,000, which is the basis upon which the local tax assessments should be levied. At the (½TR) or 2½ per cent rate, the tax would be $2,500 ($500 on the land and $2,000 on the building); $10,000 less $2,500 equals $7,500, the net income before state and Federal taxes.

By considering land and building as one tax unit and allowing the same depreciation on the land as on the building, the problem would be simplified. In such a case, the property value (V), however, would be less as the amortization rate would be applied to the land also. (In the case of residential property, whether single or multiple, the economic depreciation of the land may equal the combined physical and economic depreciation of the improvement for limited periods and up to a certain point.)

STATE AND FEDERAL TAXES VARY GREATLY

While we have worked out the tax base for the local taxes (land $20,000 and building $80,000) and found a $7,500 income remaining after local taxes, the warranted selling (or so-called market) value of the property certainly would not be found by capitalizing the $7,500 inasmuch as the state and Federal taxes must be deducted from the $7,500 in order to find the net income which may properly be capitalized into a warranted value.

The amounts of state and Federal taxes to be deducted vary greatly, depending on whether or not the property is corporation or individually owned; if individually owned, whether or not the owner is married, and, if married, the number of minor children.

Should the owner have income from other sources, the income from this property would be added to such other income, and, if such other income is of sizeable proportions, it would run his tax up very considerably.

If Property D were owned by a corporation and constituted its sole holdings, the state and Federal taxes would amount to $1,682.94 in California, figured upon the same basis as Property B.

If individually owned, the owner of Property D might escape state and Federal taxes altogether through various exemptions.

OTHER TAXES WHICH INFLUENCE REAL ESTATE VALUES

Then we have the so-called *death taxes* (inheritance, etc.) which are particularly severe in the case of real estate because of the latter's nonliquid character. There is perhaps no single factor which mitigates against the sale of large properties to wealthy people of advanced age as the

death tax. This situation is something which should compel the attention of Realtors and others interested in real estate.

Of course, everyone realizes that it is sometimes very difficult to prognosticate accurately all the different taxes which may affect the earnings and therefore the value of real estate. *However, they must be reckoned with; they certainly cannot be ignored.*

It is obvious from the above that brokers and salesmen may render a real service to their clients, as well as reduce sales resistance, by giving careful study to the various kinds of taxes and the effect they may have on the incomes of different classes of prospective buyers.

LEASED PROPERTIES PRESENT SPECIAL TAXATION PROBLEMS

Every leased property involves at least two ownerships—the respective interest of the lessor and the lessee. Where there is more than one lessee or a lessee and one or more sublessees holding leasehold estates, all such estates must be taken into account when estimating the warranted value of the property.

In case of short leases, where the premises are leased at current rentals, little attention need be paid to the leasehold estates. We have in mind here more or less long-term, well-secured leases or leasehold estates.

Under such terms the rent contracts may call for rent considerably below or above the current rents for the property. The warranted value of the property is obviously the capitalized value of the rent or rents paid to the lessor, plus or minus the respective gains or losses of the lessees, and/or of the sublessees, plus the reversion rights at the expiration of the respective leases. In other words, the value of the property is the *algebraic* sum of the various lease interests. To simplify the illustration, we shall assume that there is only one lessee and no sublessees.

"L" leases "O's" property for $10,000 per year for a long term of years. "L's" warranted annual net income from the property, after paying "O" the $10,000 rent money, is $5,000. The warranted productivity value of the property is the capitalized value of $15,000 and should be taxed upon that basis.

By the same token, if "L" loses $5,000 per annum after paying "O," the property's value for taxation purposes should be predicated upon the actual earning power of the property, namely $5,000, although, so long as the lease is in good standing, the property would be worth to a buyer the present worth of $10,000 for the term of the lease, plus the present worth of the reversion rights at the end of the lease.

While the value to a buyer (the so-called market value) should be reckoned as above, for taxation purposes, the value should be based upon the capitalized net rentals which could be reasonably expected from the property.

Transportation (city)

City Growth and Transportation

By HENRY A. BABCOCK

YOU may remember a picture which appeared in *Life* some years ago. A young man was showing his mother around New York City. She had come up from the country on her first trip to a big city, and the picture disclosed the two walking down a street which was torn up to install a sewer. To one side was a tremendous excavation for the foundations of a skyscraper, and near-by was a building half completed. Another street was being paved. The son said "Mother, what do you think of New York?" She replied, "Well, I think it will be very nice when they get it finished."

This story points out two interesting facts: (1) The young man had evidently come from the country to the city some time before to get a job and (2) New York City was not yet "finished."

Around these two facts I am going to attempt to weave a narrative of city growth and to tell you something of the part which transportation plays in the development of our urban regions.

I shall not discuss the causes of city growth at any great length; it is too big a subject. Suffice it to say that the young man from the country who went to New York to "make good" has thousands of counterparts. Then, too, a large percentage of immigration from foreign countries has settled in the cities. This whole matter of the flow of people into the cities is exceedingly complex, but out of it all comes the inevitable conclusion that people congregate in cities because of economic, social, and cultural advantages. Furthermore, while the rate of increase of population of our larger cities may not be so great in the future as in the past, nevertheless, these cities have not stopped growing by any means.

Starting, then, with the fact that large cities have grown up in the past and are continuing to grow, it becomes a matter of some interest (1) to trace the effects of an increase of population on building development, (2) to investigate the distribution and shifts of population within the urban region, and (3) to investigate the modes and means of movement of people in their daily goings and comings. It is unfortunate that there is a paucity of data relating to these subjects because much of what we know about these things is based upon superficial observation rather than upon exact analysis of factual information.

Science has its roots in the belief "that the same causes always produce the same effects." In applying this "scientific method" to the phenomena of city growth, we assume at the outset that the city, as we know it, did not develop haphazardly as a result of mere chance or caprice—that what appears on the surface as chaos is really, underneath, order. The question, then, is fairly asked, is there anything *rational* about city growth? What are the known facts?

FROM HAMLET TO CITY

Let us start with a crossroads hamlet, which, although it does not know it, is some day destined to be a great metropolis. Let us trace the growth and development of this embryo.

This little hamlet is a commercial center. Its principal building is a general store or a trading post. But this hamlet is in a strategic spot, not only for commerce, but for industry. It starts to grow. More store buildings are built on "Main Street"; a bank and a hotel are erected. A mill or a factory is established, either in or adjacent to what we can now call the business district. More houses are built. The first houses were not very well designed nor constructed, and, furthermore, they are now getting older. The storekeeper, the banker, and the owner of the factory have come up in the world. They can afford better houses. So they build new homes,

better houses, and sell or rent their old ones to some of the new population. Where do they build them? Where would *you* build in similar circumstances? Would you tear down your old house and build a new one on the same lot when you could sell the old one to a newcomer who cannot as yet afford as good a house as you can? Would you build as close to "Main Street" as you could, with the possibility of having to look at the back yards of the stores? Would you build close to the mills and factories? Of course, you wouldn't. You would go to the outlying sections. You would go as far out as you could and still be able to get back to your work in the store, the bank, or the factory with some convenience. Our rising citizen has a horse and buggy by this time, so he does not have to live within walking distance any more. But he does have to live close enough so that he can drive to work.

Even in this "horse and buggy" stage of development are seen the trends which have carried through to our present day and which have had such tremendous effects on city pattern and means of transportation. These forces are still at work and, in my opinion, will continue to be at work so long as the population continues to increase.

We find by this time a rather marked segregation of land use—so much so that three types of districts have emerged: (1) the business district, (2) the industrial and manufacturing districts, and (3) the residential districts. Tracing development one step further, we find the beginnings of the outlying business centers. Small grocery stores, meat markets, bakeries, etc. appear in the residential districts. Thus, a new trend emerges—the development of the *outlying business center* which caters to a purely local trade and retails standardized articles and commodities. The reason is entirely economic. A loaf of bread is a loaf of bread, a can of paint is a can of paint, and a spool of thread is a spool of thread, whether purchased in the neighborhood store or in the central business district. These things are, on some occasions, purchased more conveniently near home than "downtown," but not on all occasions. The outlying business center often continues to develop by both multiplication of existing types of stores and by diversification of types.

To summarize the narrative at this point, it may be well to list the trends which appear in these early stages of the future metropolis.

1. An increase of population, the increment not so able financially in the main as the established population.
2. An outward movement of the financially higher classes to new and better residences, the distance and amount of this movement being conditioned by the limitations of available means of transportation.
3. An absorption of the residences thus abandoned by the newer and less financially able elements of the population, these being the people who cannot afford new dwellings and who cannot afford the more expensive transportation to the outer residential districts.
4. A developing central business district with three trends discernible: a growth of existing types of retail stores, a diversification of types of retail business, and a development of office buildings.
5. A development of industrial and manufacturing districts, the development taking place by both multiplication and diversification.
6. A development of outlying business centers.

By this time, also, the four major types of districts are fairly well segregated:

1. The central business district with its adjacent wholesale, warehouse, and light manufacturing district.
2. The manufacturing and industrial districts.
3. The residential districts, both old and new.
4. The outlying business districts.

Each of these types of districts has its own specific economic or social function to perform in the metropolitan region; and each develops (and in some cases decays) in a characteristic manner.

THE CENTRAL BUSINESS DISTRICT

Some of the major facts relating to the central business district proper (exclusive of the adjacent wholesale district) are:

1. The diverse uses to which land is put.
2. The changing ratios of these various devel-

opments and the gradual driving out of the district of those uses which develop the lowest land values.

3. The creeping of the center of building during the earlier stages of development and the ultimate fixation of this center.
4. The increasing dispersion of building development about this creeping center during the initial stages and the ultimate limitation of this horizontal expansion.
5. The increasing degree of utilization of land, both by the improvement of vacant land within the district and the increasing height of some classes of building.
6. The decentralization of certain types of building development, that is, the building of a use, such as retail stores or hotels, outside of the central business district as against building it within the central business district.
7. The demolition of obsolete improvements and their replacement by new and, in many cases, larger buildings.

The major uses comprising the central business districts of large cities are: office buildings, retail stores, hotels, loft buildings, department stores, parking garages, and theatres. In Los Angeles, office buildings comprised but 4 per cent of the total gross building area of the central business district in 1890, but by 1930 they accounted for 29 per cent. Stores, in 1890, comprised 32 per cent of the total gross building area, but by 1930 they amounted to only 16 per cent of the total. The building center of the central business district in 1898 was close to Third Street and Spring Street; by 1912 it was south of Fifth Street on Broadway; and by 1930 it was south of Sixth Street on Hill Street. With each wave of building, the center has moved less, and there is evidence that this center will not move appreciably in subsequent developments.

In the city of Los Angeles, the radius of dispersion of building development in the central business district increased sharply until 1910, from which time on it has been practically constant at 600 yards, in spite of a quadrupling of city population and a trebling of total gross building area in the central business district since 1910. The spreading of the central business district is surprisingly uniform in the various American cities, regardless of size, provided only that they have developed to the point of maximum spreading. I believe the reason for this lies in the fact that the predominating method of moving around within the district is walking. It is cheaper, quicker, and more convenient to walk than it is to be transported. There is a tremendous interchange of business of various kinds between different offices, and a great deal of this involves personal contacts between those who inhabit office buildings. People coming into the district to transact business often have more than one call to make. For centuries shoppers have come to the market place to buy, and, in buying, they wish to compare quality and prices and, therefore, go from store to store. Here again it is quicker and cheaper to walk than it is to be transported. These are the reasons why central business districts develop with buildings close to each other. The district coheres with something like a gravitational attraction. Many people have the idea that business districts are subject to the same "centrifugal forces" which throw residential areas to the periphery of the urban region, but I have not found it so. In so far as they expand horizontally, they are *pushed* out, not *pulled* out, from their centers. The limit to this outward *push* is a *convenient walking radius.*

This limitation on horizontal expansion and this inward pressure on the center result in taller and taller buildings as the city grows. The American skyscraper, one of the wonders of the world, is the direct result of the pressure of city growth on a district which cannot economically expand over a large area. It should be noted, however, that not all types of buildings are subject to this upward trend. In fact, office buildings, hotels, downtown clubs, and parking garages comprise the list. The retail store cannot sell goods above the second or third story, and the department store goes up to about ten or twelve merchandising floors (using the top stories for offices, locker rooms, etc.). It becomes uneconomic to transport large masses of shoppers higher than this. The

theatre is a few stories high. Lofts, with their low square-foot rentals, cannot economically build as high as office buildings.

As to decentralization in the growing city, we have one measure in the amount of building of any use classification *outside* of the central business district as compared with the amount built *within* the central business district. Taking a central business district as a whole—that is, all uses combined—it will be found that building within the central business district is not proportional to the increase of population but proceeds at a less and less rate. So far as the central business district of Los Angeles is concerned, office buildings, parking garages, and public utility buildings, measured in terms of gross building area, have kept pace with the increase of population, but all other uses show a declining rate of increase. Decentralization expressed in terms of building permit values (corrected to the value of the dollar as of 1926) shows industrial buildings 95 per cent decentralized; parking garages, 83 per cent; stores, 69 per cent; public utility buildings, 67 per cent; theatres, 61 per cent; clubs and lodge halls, 55 per cent; loft buildings, 52 per cent; hotels, 51 per cent; and, very much lower in the scale, office buildings, 16 per cent. The *rate* of decentralization in Los Angeles shows: industrial buildings, 100 per cent; stores, 89 per cent; hotels, 79 per cent; parking garages, 77 per cent; theatres, 73 per cent; lofts, 70 per cent; clubs and lodge halls, 69 per cent; public utility buildings, 64 per cent; and, least of all, office buildings, 28 per cent.

A striking and characteristic feature of central business districts is the demolition and replacement of buildings. Buildings are torn down, not so much because they are in bad condition structurally, or even because they have ceased to pay a fair rate of return on the original investment, but because the time comes when the land alone, under a new improvement, is worth more than the land and the old building combined. As the real estate economist says, "The unamortized investment in the old building is absorbed by an increasing land value."

In the central business district of Chicago, many sites are carrying their third buildings. In Los Angeles, many are improved with the second and some with the third building. In connection with this characteristic of demolition and replacement, it may be stated that larger and larger assemblages of land are being made to serve as new building sites. In Chicago, the original twenty-five-foot lot is disappearing, and modern office buildings occupy one fourth and, in some cases, one half of a city block. The trend points to developments over entire city blocks.

THE OUTLYING BUSINESS CENTER

The development of the outlying business center is of particular importance. Some people have the idea that this is a new phenomenon. It has been called to their attention by the fact that our larger metropolitan regions have grown to such an extent that the population has crowded over the political boundaries of the central city. As a matter of fact, the outlying business center is found in the older sections of all cities and even in small towns. In Chicago there are dozens of these districts.

I read recently that the growth of the territory surrounding our large cities at the expense of the central city was one of the outstanding trends of our times. There is nothing new about this. The population flow has always been outward. In earlier days these peripheral settlements were absorbed into the city by annexation, but in the last decade or so resistance to annexation has developed to the extent that students of this matter are of the opinion that these suburban and satellite communities will continue to maintain their political independence although socially and economically they are integral parts of the metropolitan region.

Some of the major characteristics of the typical outlying business center are:

1. The most important ones have the best

transportation connections with the central business district.

2. Less important centers develop in the newer residential districts, usually at important automobile highway intersections or transit intersections.
3. The characteristic and predominating use of land is for retail stores.
4. The pattern of these districts is "linear," that is, they stretch along a street for a few blocks with little development on the intersecting and adjacent streets as contrasted with the pattern of the central business district which spreads out over many blocks. In its early stages the central business district had this same "linear" pattern; as an outlying business center grows, it loses this linear characteristic, to some extent, and a main cross-street section develops. In important cases, where development is well advanced, the pattern approaches that of the central business district.
5. With growth, retail stores remain the dominant use. There is seldom any important office building development. Offices in outlying centers are occupied to a considerable degree by physicians and dentists. In addition to retail stores and branch banks, theatres, small local and branch department stores, and hotels appear in the cases of the larger and more important centers. In fact, the very large and important outlying business center, whether it be within the city proper, in a suburb, or in a satellite city, takes on most of the characteristics of the central business district, except the most important characteristic—that is, that the central business district is primarily an office building center, housing the *head* offices of financial, industrial, and commercial organizations, and contains the *large* department stores.
6. Important outlying business centers throw out satellites, and they, themselves, are subject to decentralization (an example is the marked decentralization of food markets from the outlying business centers in the Los Angeles area).
7. The outlying business center's retail trade is almost wholly local in character, coming from the surrounding residential district. In those cases in which a supporting *single-family dwelling* district is superseded by apartments, flats, or other multi-family dwellings, with a resulting increase in the local population served by the outlying business center, there follows a corresponding development in the business center. Old commercial buildings are torn down to make room for new and better ones, and obsolescence is corrected. This supersession of houses by multi-family dwellings occurs but once in the life cycle of the district so that there is seldom more than one replacement on the lot in the local business center. If this type of supersession does *not* take place, there is a gradual decline in the total purchasing power of the supporting population, which ultimately causes the district to decay. Improvements in transit facilities to an old single-family house district is an important factor in inducing supersession by apartments.

The allocation of retail trade between the outlying business center and the central business district works out ultimately upon an economic basis. The store in the outlying district caters to local trade, and the store in the central business district caters to metropolitan trade. Standardized articles and commodities, in general, can be bought more economically in the local store though not necessarily because of a difference in price. In fact, prices of such commodities actually may be higher in the local store, the differential arising from the cost of transportation into the central district and the time and discomfort entailed. On the other hand, the store catering to the metropolitan trade can and does carry a much larger selection of nonstandardized articles; furthermore, it has the advantage of being in the "market place" so that shoppers have the opportunity of a larger selection, not only in any one store, but in other stores as well. Large department stores habitually locate as close to each other as they can for this reason. They create a large percentage of the shopper foot traffic. For this reason, stores and shops carrying specialized lines locate close to the department stores, as do the restaurants and moving picture theatres catering to the woman shopper. Recent experiments in opening branches of downtown department stores in important outlying centers, to carry the store to the shopper, instead of improving the transit facilities to carry the shopper to the store, are being watched with much interest. This branch department store idea is relatively new, and I do not think anyone yet knows whether it is a trend which will continue.

BLIGHTED AREAS

The trends in residential districts have already been touched upon: the outward flow of the financially abler elements of the population, the absorption of the older residences by the less financially able of the increasing population, and the supersession of decaying single-family dwelling districts by multi-family dwellings. It should be noted also that demolition and replacement with the same type of improvement is a rare occurrence in residential districts.

The pull on older residential districts by the newer districts has been commented upon. The "gravitational" cohesion of central business districts has been discussed. Think of the region as a whole, the great majority of the utilized land being either residential or industrial in use, with the nucleus which constitutes the central business district. The outward pull on the residential districts coupled with the inward pressure on the central business district creates a sort of "vacuum" which causes the creation of the blighted districts. Looked at in another way, the fringe around a business district collects all of the nondescript uses which cannot afford to be in the district itself but which, nevertheless, cling as close to it as they can. This fringe is an undesirable residential location, and no one would live there if he possibly could afford a better location. The result is that these areas are inhabited by the lowest elements in the financial scale. Frequently these areas become slums and account for a great percentage of the crime, vice, and poor health of the community.

Each of the *outlying* centers, whether large or small, also has its little ring of blight or potential blight. Everyone has seen the old residences, usually in a bad state of repair, under the very shadow of the larger outlying centers. The newer and smaller outlying centers are frequently surrounded by vacant land. The future of such land is dubious. Some of it may be used for horizontal spreading of the business center as it grows, but the fact remains that good residential territory never is found immediately adjacent to developed business property. The ring of blight around the central business district of older cities is great in extent and creates a most serious problem. In Chicago, for example, this ring constitutes an area of some thirty-seven square miles. In Los Angeles, the blight around the central business district is as yet slight, but decay is proceeding, and the city will ultimately have a similar situation.

The problem of rehabilitating these blighted areas, which are the results of the major trends in city growth, is being given considerable attention. As yet no one has come forward with any *large-scale* solution, although there have been a few projects covering from one to six blocks. Three main types of solution have been offered:

(1) It has been proposed to acquire large tracts of blighted or slum areas by private purchase, demolish the old buildings, and rebuild with modern residential improvements; in other words, form a land and improvement company and operate for profit. The offer of stock in the corporation is made to the property owners involved in return for title to the property, with cash for those who do not wish to take stock. Financing of such projects is practically impossible. Investors and capitalists well know that the return on residential property of the apartment type is not very attractive. In practice, a considerable percentage of the owners will not go into such a cooperative scheme and demand cash. Prices asked are high. Furthermore, there is always an irreducible minimum of "holdouts," who will not sell at anything like a reasonable price.

(2) Most of the proposals involve condemnation by right of eminent domain, demolition of the old structures, and the construction of model low-rent housing, with deficits, if any, to be made up from general taxation. These plans involve the legality of the condemnation, but, if that

is settled, they do not eliminate the difficulty of not being able to acquire all of the property. The cost of acquisition, however, is high—higher than would be the case were new land purchased outright in an outlying district. This, coupled with the proposed low-rent scales, makes it doubtful if such undertakings can be made self-supporting. Under such plans, the taxpayer has to be convinced that the deficits which he pays through the medium of general taxation will be offset by lowered expense of law enforcement and public health measures in these former "bad lands."

(3) Piecemeal rehabilitation is frequently proposed, usually in the form of high-grade apartment properties. It is believed by some that, if a few of such buildings were built in these districts, others would follow under private initiative and thus the blighted area be slowly reclaimed. I do not hold this belief, although I am willing to be shown. If you throw a few good apples into a barrel of rotten ones, you merely infect the good ones. It may be possible, some day, to reclaim very small amounts of land by skyscraper apartments, as has been done in New York, because, if the building is tall enough, the occupants are not so much concerned as to the class of neighbors which clusters around the foot of the building. This method would at best account for only a very small percentage of the total area to be reclaimed for the reason that the very thing that would make such a tall building an economic enterprise is the higher land value developed by concentrating people from several blocks of single-family dwellings onto a single, small building site. This piling up of people leaves the rest of the land unreclaimed. Supersession, therefore, proceeds slower than the spread of the blight.

"LEFT-BEHIND" VACANT LAND

This about completes the general picture of the metropolitan region as it has developed under the pressure of increasing population. There remains only a discussion of the "left-behind" vacant land. This phenomenon is one of the most striking characteristics of American cities. It is often asked: Why do not cities develop in even layers? Why do they not grow outward as an onion or a pearl does? Nature leaves an unclosed spot on the top of a newborn baby's skull structure to allow for growth, and cities do a very similar thing. These vacant land areas are held by their owners for future growth and development—to be sold for higher uses than the immediately available one. Different land uses not only develop widely different land values, but the demands for these different uses appear at different times. Furthermore, the same piece of land is almost always usable for a variety of different uses. A man may own a lot which might be improved with a market, a theatre, or a small office building. Perhaps he can sell it now to the man who wants to put up a market, but perhaps in two or three years a theatre man will want it and will pay a higher price. Or perhaps in ten or fifteen years he can sell it for an office building site for even more money. He has to decide whether to take a low price now or speculate on a higher price later. If he does not sell when he has the chance, the future expected demand may never appear, and another "left-behind" vacant lot is added to the picture. Excessive amounts of this sort of land are characteristic of cities in which land owners anticipate a rapid growth. In cities where owners do not expect very rapid growth, the amount of "left-behind" vacant land is very much less. Examples of two extremes in this respect are Los Angeles and Baltimore. The problem of what to do with this unused land in our large cities is almost if not quite as great as the problem of what to do with the blighted areas.

TRANSPORTATION

The spread of building development, the formation of specialized districts, and the shifts of population have been discussed as effects of the pressure of increasing

population. It remains to mention the modes and means of movement and transportation which have been developed to handle the increasingly difficult problem of moving millions of people about in an ever-increasing metropolitan area.

The period of past metropolitan growth can be divided into four stages of transportation development: (1) the horse and buggy stage; (2) the streetcar stage; (3) the off-surface rapid transit stage; and (4) the automobile stage.

After the horse and buggy became entirely inadequate for passenger transportation, first the horsecar and then the cable car were developed. These clumsy means of transportation were soon displaced by the electric street railway, which spread in a network of rails and trolley wires throughout the more densely populated parts of the growing city. In the East, suburban development took place along the steam railroad lines which provided rapid, if not flexible, transportation into the heart of the city. Electric interurban lines appeared, connecting the central city with neighboring towns which prior thereto had an independent existence. These interurban lines were also used as a means of developing new territory beyond the confines of the city. At a later date the competition of the automobile was to dig the graves of many of these systems.

The city streetcar, with its two offspring—the motorbus and the trolley bus—essentially a short-haul type of transportation, was too slow and too uncomfortable to serve adequately the districts which developed beyond the five- or six-mile radius. The demand brought about the development of off-surface rapid transit lines. In New York City and Philadelphia these took the form of elevated lines and subways. In Chicago elevated lines alone were constructed. It was twenty odd years after these systems were built that the private automobile came into common use. It met the demand for transportation into districts not served by rail transportation and also cut heavily into the traffic of the rail systems in the districts which they did serve. The advent of the automobile has deterred development and expansion of rail systems and, in the smaller cities, has actually put streetcar lines out of business. It has introduced new problems, only partially solved, of highway construction, traffic control, and automobile storage and parking.

In the three largest metropolitan regions in this country we have, thus, the streetcar, the motorbus, the electric interurban, the steam railroad commuter trains, the off-surface rapid transit, and the private automobile. New York, Chicago, and Philadelphia have found it necessary to use *all* of these forms, and they have spent and are spending enormous sums in developing facilities to handle the newest form of transportation—the private automobile.

Making the Appraisal Carry Conviction

By HILL FERGUSON, M.A.I.

CASSANDRA, as you will recall, was a beautiful Trojan maiden of Greek mythology, who had a wonderful gift of prophecy. Her accuracy in forecasting all of the current events of her day was phenomenal, and presumably she could predict to the exact drachma the amount of money that any property in Troy would bring if offered for sale in the market.

Unfortunately, however, nobody believed this young woman. She cited case after case where her predictions had been fulfilled, but still they doubted. Her predictions lacked punch. They were too vague. They did not carry conviction.

While we appraisers are not prophets, our predictions and conclusions are largely concerned with future events and conditions, and unfortunately they are not always believed. This paper proposes to discuss how those Cassandras among us may so strengthen and present our reports that they will be accepted with all the acclaim that accompanied the prophecies, not of the discredited Cassandra, but rather those of the famous Oracle at Delphi.

THE XYZ'S OF THE APPRAISAL PROCESS

I wonder how many of us ever consider that the majority of our appraisals do not stop with the man who employs us, but are forwarded by him to some unknown person, or committee, frequently in another city, who is the real party the appraisal is supposed to convince or influence.

Any professional appraiser, looking back over his experience, will recognize this fact. I am listing below the types of appraisals which I have been called upon to make and those which have come under my observation in order that the above assertion may be more clearly understood.

Mortgage loan purposes: Appraisals for the big mortgage companies are generally ordered by the local representative or agent and forwarded to the home office where the application, appraisal, and supporting data are given due consideration by the loan committee or other officials of the company. In many cases—probably in most cases—the appraiser is unknown to the company officials—only that he is recommended by the local correspondent. No matter how accurate his appraisal conclusions are, unless the appraisal itself is so presented that it carries conviction, his efforts will be a failure. Mortgage houses who sell mortgages "across the counter" to the public use the appraisal to prove the value of the collateral behind the mortgage. In building and loan lending, the appraiser probably comes in closer contact with those who make the decision about the mortgage than in any other form of mortgage operation.

Purchase or sale of real estate: Officials of the United States Government and of the states and cities, in many instances, require an appraisal before they will sell or purchase property. The appraiser's report is reviewed usually by parties who are entirely unknown to him and upon whom the appraisal should carry sufficient persuasion to induce action. Occasionally, corporations, firms, and individuals use independent appraisers in assisting them on decisions of values when sales or purchases are under consideration. Here the appraiser comes in close contact with the party his appraisal is supposed to influence.

Expert testimony: When on the witness chair, the appraiser must convince the judge or referee or, in many cases, a jury as to the correctness of his opinion. This testimony may be entirely satisfactory to the man who employs the appraiser, but in many cases it is unconvincing to the judge or the jury.

Condemnation: Practically the same principle holds in the case of appraising for condemnation purposes as in expert testimony. The condemnation committee or jury must be convinced.

Tax appraisals: Whether the appraiser's efforts are to ascertain the real value of the property or to equalize with similar properties in the neighborhood, the final decision rests with some tax authorities who may be entirely unknown to the appraiser.

Damages of various kinds: Appraisals resulting from the effects of fire, storm, overflow, power lines, etc. are not made for only the eyes of the client who employs the appraiser.

Appraisals as of March 1, 1913: Property which has been held continuously in one ownership since prewar days must be appraised as of March 1, 1913, in order to determine the profit or loss when sale is made at this time. Here the appraiser must convince some unknown government officials in the local internal revenue office or in Washington.

Prospectus appraisals: Appraisers are called upon to give their opinion as to the value of a certain plot of ground after a proposed apartment house, hotel, or office building is erected upon it, and those who do such work are expected to give their arguments in a convincing manner, presented in a beautifully printed prospectus, to a large number of unknown bond buyers.

Railroad appraising: Some years ago railroads were required to have all their rights-of-way and lands on which their terminals were located appraised for the benefit of the Interstate Commerce Commission—far removed from the scene of the appraiser's activities.

Public utilities: Public utilities and various governmental units often require appraisals in order to determine the value of property which is used as a basis for rate making.

Appraising in a strange city: From various sources and for various purposes, appraisers are frequently employed to go into strange cities and render opinions of value on the theory that the local appraiser is liable to be biased.

Governmental appraising: During the past few years, several million appraisals have been made for the Home Owners' Loan Corporation, the Federal Housing Administration, the Reconstruction Finance Corporation, the Farm Loan Banks, and many other governmental agencies. These appraisals are made, not only for the benefit of the local official who employs the appraiser, but for various state, regional, and national officials who examine the file from time to time.

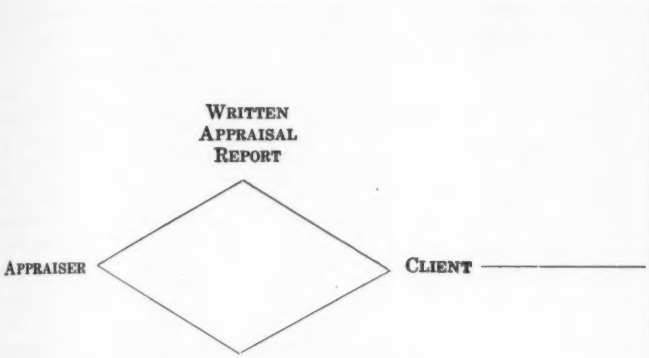
Partitions in kind: The court frequently employs an appraiser to suggest a physical partition of property into halves, thirds, or some other fraction, and, while he is not employed primarily for the purpose of satisfying the parties at interest, the more nearly he can do so by explaining his conclusions, the better job he has done.

There are a number of other sources of appraisal which might be listed, but I believe, if time were taken to study them, that it would be found most of them do not stop with the client from whom the appraiser gets the assignment, but are forwarded to some third party.

As a simple illustration of the "graph" idea of presenting arguments, I have attempted to condense the foregoing items into the chart shown on page 259.

THE PRESENTATION

The good newspaper man always tries to make the first paragraph of his article tell the whole story. In the succeeding paragraphs he elaborates and gives more details, but, after all, he gives the gist of the story at the beginning, and frequently this is the only part seen by the busy reader. So it is with the appraiser. He should give a brief description of the property, the qualifying phrases, if any, his appraisal figures, his certificate, and his signature all on the first page. Men for whom the appraisal is intended do not want to look through a ten-, twenty-, or thirty-page report in



PERSONS TO WHOM THE WRITTEN REPORT IS FORWARDED BY THE CLIENT AND WHO ARE TO BE CONVINCED BY THE APPRAISAL

- Loan committees
- Judges and juries in expert witness cases
- Condemnation commissions and juries
- Tax officials in assessment cases
- Adjusters in damage cases
- Income tax officials when valuations as of 3/1/13 are involved
- Bond buyers in development projects
- Interstate Commerce Commission in railroad valuations
- Various public official bodies in public utility rate cases
- Government agencies
- Syndicate owners, partners, heirs, etc. when partitions in kind are sought

order to find the answer and then back to the beginning to see what it is all about. The good appraiser gives his conclusions at the outset and proves them in the pages that follow.

Remember also that the appraisal should be attractively presented, bound in a suitable cover and properly inscribed, to make it look worthy of the fee which has been paid for its preparation and to distinguish it from the mass of ordinary correspondence among which it will probably be filed. Make it look as if it had worth—and it has, presumably—and give the possessor all the more incentive for keeping it where it can be found and used.

It is not the intent of this article to attempt to define or to discuss any of the processes of appraisal. I assume that most of those who read it are men of good appraisal judgment, whose figures and conclusions are taken at face value by their immediate friends and clients. Whatever system you may use in the work, I assume that you have the ability to get the right answer, and the object of this paper is an attempt to show how your conclusions may be better supported and made more convincing, not only to the client, but to those XYZ's of the appraisal procedure who are finally to get your paper, and from it to arrive at a decision on some course of action.

DIFFERENT FEES FOR THE SAME SERVICE

Why is it some surgeons get a $1,000 fee for performing an operation which another surgeon does for a $250 fee or less? Why is it some lawyers demand, and get, fees several times what other lawyers receive for the same work? The answer to both questions is that these men, through years of training and preparation in the technique of their professions, through the building up of expensive laboratories and libraries, and with highly trained, adequate assistants, are able to render a service to their patients and clients which the man not so well equipped cannot give and, in consequence of this, get the higher fees.

The same principle holds true in appraising; one man can charge much higher fees than another man not so well

equipped to render the service. I know appraisers with splendid office records on most of the factors affecting local real estate conditions in various parts of the city, and, when the clients pay for their services, they feel sure that the appraisal has had every reasonable study and all of the supporting data necessary to justify a proper conclusion. This is a laudable ambition to which all appraisers can look forward—how they can merit and receive better fees for their work.

SUPPORTING DATA

I think the distinguishing feature of an appraisal, which removes it from the amateur to the real professional class, is the *supporting* data submitted, tending to make the appraisal more convincing to the client as well as to the other parties to whom it may be submitted.

It is impossible to give any exact definitions about supporting data. There are no two pieces of real estate exactly alike, no matter how similar they may be, and arguments that apply to one do not apply to another. The main factors for the appraiser to recognize and to include in his report are the real underlying causes or reasons that influence him in his thinking and lead him to his final conclusions. For instance, appraisers are too prone to say the trend is "for" or "against" a piece of property, and let it go at that without attempting to describe the trend. The ability to state arguments of this kind in concise and forceful language is a great asset in appraising.

If it is possible to illustrate these statements by graphs or charts, do so. Statistical figures from the government or other agencies usually have charts or graphs accompanying them in order to present a comparison of the figures with those of other years, months, or whatever general average has been chosen as a basis of comparison.

The same idea can be used in appraising, and, without attempting to give any rules on the subject, the following are a number of illustrations of supporting data that will furnish some idea to the appraiser of how similar problems may be handled.

1. The photograph of the property under appraisal is important, not only of the front, rear, and sides, but, if the case warrants, of inside views or different features about the building or neighborhood which the appraiser may want to emphasize. Bird's-eye views from the tops of neighboring buildings or, when available, views taken from an aeroplane add novelty and force to neighborhood and district arguments.
2. Many appraisers are now insisting that their clients pay an extra fee for engineering data and an inventory of the property, such as the strength of the foundation and walls, the floor loads the building will carry, the spacing of columns, and various other information that is frequently so important when the value of a property is being considered.
3. The *Sanborn Fire Atlases* are very useful in showing the width of the walls, height of the building, and other similar information which the appraiser may be forced to secure without the aid of an engineer. This applies not only to the subject property but to all neighborhood properties in residential, business, or factory locations. While these maps are not supposed to be as accurately compiled as an engineer might do it, for practical appraisal purposes they are correct and are much better than the ordinary appraiser is able to compile without technical help. I know appraisers who make a pencil tracing from the *Sanborn Fire Atlases* in order to get work sheets on which to compile their neighborhood data. A neat tracing of this is made, with white prints if several copies are required, for inclusion in the appraisal report.
4. Population studies since 1910, and from 1900 if practicable, are highly desirable in studying the trends of a city. Those regarding families, houses and their values, tenants, etc. are particularly valuable. Care should be taken, however, to see whether increases have been accomplished by real growth or by the enlargement of city limits. A study of population trends in a particular neighborhood, or in one of the Census Bureau's enumeration districts, is also very pertinent. A city, as a whole, might be rapidly growing and some district in it losing population steadily.
5. Some appraisers are keeping accurate plats as to flood damage, storm and earthquake damage, and other hazards which may have a bearing on the value of properties, even though this bearing is remote. Such information is often submitted confidentially by the appraiser.

6. Some take pains to submit history and original cost of the land and building whenever they can secure it, if for no other reason than as a check against their estimate of present-day reproduction costs.
7. Comparative sales prices of similar properties are good appraisal arguments, and supporting data concerning them are very convincing. I know an appraiser who recently cinched his argument by turning in an accurate report of comparative properties in a neighborhood where there were no sales but showing the prices which a broker had quoted on the sale signs with which he had placarded near-by properties. Another appraiser in a midwestern city has a card index of every property that has been advertised for sale in his city, including the asking price, during the past five years.
8. A map for fishermen, prepared by the Chamber of Commerce and hotels along the Gulf Coast of Mississippi, was recently used to advantage by an appraiser to emphasize the thirty-mile sea wall which had been built along that coast, the fine roads leading from there to New Orleans and Mobile and northward as far as Chicago, and the increasing value which all the property along this sea wall is now enjoying.
9. A downtown location map, picked up in a hotel in New Orleans, was used to spot a number of recent sales of downtown property at $1,000 per foot and under, which figures were used as a basis of comparison with the subject property. This map was much better than one the appraiser might have drawn.
10. In St. Louis, a hotel map of the downtown district was used to illustrate the difference in traffic conditions on Locust Street as compared with Olive Street, a parallel street on one side, and Washington Avenue, another parallel street on the other side, with certain deductions therefrom.
11. Another appraiser has made it a rule, in doing the work for a certain client, to submit all the selling arguments tending to support his appraised value. The recipient of these appraisals uses these arguments to good effect in negotiating sales of the properties.
12. One of the best salesmen I know submits to a prospect a count of passing automobiles or pedestrians for each business property under consideration. Most chain store operators require accurate traffic counts on all sites they lease or purchase. How many appraisers submit any traffic evidence with their appraisals? How many would know how to make a traffic count or are equipped to do it? At what hours of the day should he make these counts?
13. Floor plans are becoming more and more essential in appraisal reports, and it is really astonishing what good plans many of the appraisers draw, who never before made any pretense of draftsmanship. Under the new procedure of the Home Owners' Loan Corporation, nearly one hundred thousand appraisals have been made where floor plans were included. Those who review the files in many cases find the floor plans more illuminating than the photographs.

    The drawing board and rule, the tape and compass, and other equipment for elemental draftsmanship are becoming more and more essential for all professional appraisers. Of course, if the size and importance of the assignment justifies, architects or engineers should be used for this service.
14. Plain language is essential. Don't use intricate or involved appraisal formulas or systems in setting up sinking funds, depreciation, etc. When you do use a formula or factor, state where you obtained it so that your work can be checked if your client so desires. This may also save you embarrassment later on, after the appraisal has become cold, and you are asked, "Where did you get that factor?" I have seen some appraisers struggle for hours trying to retrace their steps through some involved appraisal labyrinth.

How to boil down information, eliminating that which is immaterial and emphasizing that which is pertinent, is one of the appraiser's outstanding problems.

Appraising Berry Farms

By W. S. GUILFORD, M.A.I.

THE letter asking for this paper stated, "We do not want an appraisal report, but a clear discussion of the fundamental principles and correct procedure in the appraisal of berry farms."

Let us assume the question, "What is your estimate of the agricultural value of an acre of berries that produced $1,000 gross last year?" Would you determine the cost of producing the crop and capitalize the net? And if so, at what rate? Or would you consider the land at its basic value for its adaptability to diversified agricultural crops and largely discount the berry operation because of the hazards of disease, labor and marketing, and the contribution of the operator in addition to the land value? Or would you in most cases make your best-informed estimate of the basic land value, considering a logical long-time cropping program, and make an estimate of the probable additional net earnings from the berry enterprise after considering all the factors in this specialized business, including the ability of the operator and the additional investment in equipment and vines?

WHAT IS A BERRY FARM?

In some agricultural appraising nomenclature, the principal revenue-producing crop on a farm determines the type for the purpose of classification. Others might classify a farm upon the basis of the largest acreage devoted to a certain crop. For instance, a 10,000-acre tract which consists of 9,500 acres of range land devoted to the production of cattle and 500 acres devoted to grain would probably be classed as a cattle ranch. The same would apply to a berry farm.

A considerable part of the volume of berries of all kinds which are grown in this country are produced on what might be called "patches," varying from a fraction of an acre to two or three acres on diversified farms. Then there are "farms" of from five to ten or more acres devoted almost exclusively to berries in some of the berry-producing areas, such as there are in Louisiana, some parts of California, Washington, and Oregon, and the states in the Middle West and along the Atlantic seaboard. For the purpose of this discussion, a berry farm might be any area on which a considerable part of the income is derived from the growing of varieties of the following or any newly developed other varieties:

Strawberries	Dewberries
Red Raspberries	Cranberries
Blackberries	Blackcaps
Currants	Gooseberries
Loganberries	Blueberries
Youngberries	Boysenberries

In the consideration by the Farm Credit Administration of applications for loans upon the security of lands devoted to specialized farming (berry farms being in this class), the following factors are material and may be determining:

1. Whether the specialty is well established upon a commercial basis in the particular locality.
2. Whether the specialty has proved profitable over a period of years and market outlets appear stable.
3. Whether farmers in the locality generally understand the production, care, and marketing of the specialized product.

Where these factors are favorable, loans may be made on farm lands that are well located, well improved, desirable, and normally salable upon the basis of the value of such property for the specialized type of farming. Such part of the land as is not used for the specialized farming should be valued only upon the basis of what it contributes as an adjunct to the specialized project or in the production of agricultural products common to the locality.

PURPOSE

The purpose of an appraisal of a berry

farm or a berry acreage might be to arrive at an estimate of its value for any one of the following:

1. Loan agency.
2. Buyer.
3. Seller.
4. Assessor.
5. Inheritance tax collector.
6. Income tax collector.
7. Condemnation authorities.
8. One or more parties desiring partition.

The appraisal will be an estimate of quantity, quality, or value, or all three.

In making a reasonable estimate of the value of a property, consideration would be given to a value based upon strictly agricultural use and any other use which might be its highest and best use, such as for subdivision purposes, factory sites, etc. The latter would be considered in making an appraisal for a buyer or seller and some of the other agencies enumerated above. In the Farm Credit Administration, the estimate of value would be made largely upon an agricultural basis, although the potential resale value, location, and nonagricultural features of the property would be considered by the appraiser.

It might be inferred from this that an appraiser could have two estimates of value for the same property at the same time. My conception of this, however, is that a complete appraisal of a property on which berries are planted would be a figure which would contemplate its highest and best use, but that the factors should be so set out that they could be used in any way that might be desired.

This is in line with Frederick M. Babcock's article, "A New Approach to the Solution of the Appraisal Problem," in the January, 1937, issue of *The Journal of the American Institute of Real Estate Appraisers* in which he indicates that " . . . the determination of one or more defined and qualified estimates of value does not, by itself, solve the appraisal problem which is usually presented." The other factors are usually significant ratios. They are relationships which, when expressed as fractions or ratios, round out the valuation and describe its qualitative characteristics; in addition, they go far beyond the appraisal itself and provide further bases for the making of decisions on the matters which originally made the appraisal necessary. Mr. Babcock also states: "Now to summarize: The three principal points I have tried to bring out are these: first, that accurate valuation, important, necessary, and desirable as it is, is by no means a complete solution of the appraisal problem; second, that the problems for which valuations are required can be solved by analytical means, usually by the careful determination of a number of significant ratios; third, that the risk rating system applicable to the examination of mortgages is a good example of the new approach to a solution of the appraisal problem."

PROCEDURE

The procedure in arriving at the estimate of value of a berry farm is the same as in that of any other property:

First: Collection of data.
Second: Analysis.
Third: Conclusion.

The three approaches to an appraisal estimate of real estate, as outlined by Ralph V. Field in an article entitled "Farm Land Appraisal Standards," in the January, 1938, issue of *The Journal of the American Institute of Real Estate Appraisers*, are as follows:

"Value of the land plus the cost of reproduction of the buildings new, less depreciation.

"Comparable sales of similar property, similarly located, on the open market as between willing buyers and willing sellers. These sales, to be of definite value, should be made within a reasonable time prior to the date of the appraisal of the property under consideration.

"Capitalization of net income."

As Mr. Field suggests, so-called adjustments are automatically covered in these three approaches.

COLLECTION OF DATA

In the collection of data in connection with a berry farm appraisal, it is inter-

esting and valuable to know what the general berry situation is in the United States. This includes the sources of supplies during the different seasons in the year, the amount of the supplies, the development of refrigeration in the berry industry, and the effect of supplies from larger sources on local prices and possible profits. For instance, it is reported that Louisiana supplies twelve out of every 100 quarts of strawberries coming by carlot shipment to market in an average year. Arkansas usually provides eight out of every 100 quarts: Oregon and Texas, seven; and Missouri, six.

Consideration of the varieties that are most popular is also of interest.

All kinds of berries are highly perishable, which makes the distribution of the product to various markets important.

Competition of other fruits and fruit juices with berries is another factor.

These are matters of national consideration. From the standpoint of the district or locality in which a particular berry farm under discussion is located, it is important to know the marketing facilities, whether through farmer-owned cooperatives or other agencies. The labor situation is also important. In certain districts a large part of the berry production comes from farms where the operator provides an outlet for the labor of himself and his family. His income, therefore, may be high or low; but, when the product sells at a low price, he does not suffer the direct financial loss which would be borne by another operator hiring labor. In fact, in many districts the operator who hires day labor for cash does not stay in the berry business for any great length of time. Some comparatively large acreages are handled by owners or renters, with Oriental labor, upon a share basis. This may or may not be a subterfuge, but consideration should be given to such facts as may appear in this connection.

It is important to know if there are markets for the berries of a district other than the local market and shipping market for berries in a fresh state. For instance, in some districts in the Northwest, as high as 90 per cent of certain types of berries are sold to processors, and, obviously, if canning facilities were not available, there would not be this market.

In the collection of data, certain routine information must be obtained. This includes:

Legal description.
Location of property.
- Distance from towns, schools, packing houses, etc.
- Transportation facilities.
- Potential value for other purposes.
- Number of acres.
- Accessibility to roads.
- Shape of property with regard to division into smaller parcels.

Plantings.
- Variety.
- Age.
- Condition.

Management.
- Is the property leased?
- How long has it been under the present management?
- What is the history of the operation?

Soil.
- Texture—heavy, medium, light, gravelly, alluvial.
- Type of topsoil and depth.
- Subsoil or hardpan.
- Vegetation grown on soil before development, indicating natural fertility.
- Crops grown on similar adjoining land.
- Is soil mellow and easily worked?
- Does the soil take and retain moisture?
- Location of groundwaters.
- Is soil easily drained?
- Is there excess alkali or an acid condition?
- Hazards of erosion and from overflow.

Moisture supply.
- Does the moisture supply all come from rainfall?
- If so, is this supply constant, or are there periods when a lack of rain may seriously affect the crop?
- If from irrigation, is water obtained from irrigation district or from wells?
- If from irrigation district, what is the condition of the district, and what are the per acre costs, permanence of supply, and quality of water?
- If from wells, what is the depth, permanency, lift, capacity, type of pump, and cost?
- What are the sources and quality of domestic supply?

Nature of land.
- Level, hilly, or rolling.

Is terracing necessary?
Environment.
Elevation.
Wind.
Frost.
Are heaters used or necessary?
Transportation and marketing facilities.
Improvements.
Possible value for residential or business purposes and facilities available for these uses.
Assessed valuation and taxes.
Encumbrances and title.
Oil and mineral possibilities.
Restrictions—building, race, or any other.
Sales of comparable properties.
Returns.
Cost of operation.
Net income.
Under this heading consideration should be given to the age of the planting, cost of installation, length of time the bed will be profitable, the possible use of the land after the berries are abandoned, and the cost of preparing land for subsequent crops.

The above follows rather closely an outline suggested by L. C. Nanney, of Whittier, California, in the securing of information for an estimate of value of a citrus grove, another type of specialized farm. It is also in line with the ideas of P. L. Gaddis, of the Farm Credit Administration, Washington, D. C., which are as follows:

"To summarize, in making an appraisal, the appraiser will take the following steps:
(1) Make a study of the unit in its setting, including trends in production, markets, and home uses.
(2) Make a complete inspection of the property, carefully classifying the land by type, utilization, and production.
(3) Accurately measure and determine the utility of each building.
(4) Assign acre values and individual building values.
(5) Value the unit as a whole.
(6) Carefully estimate farm income and expenses under present management and under typical operation.
(7) Check by rate of return to representative owner-operator and landlord.
(8) Check livestock units with carrying capacity or staple cash-crop farms by productive capacity.
(9) Check with type farms or other units appraised previously in this and other areas.
(10) Check with sales prices under different conditions, adjusted for abnormality.
(11) Check with opinion of sound and substantial farmers and business men of the area.
(12) Make appropriate allowance in his all-asset value for any nonagricultural features.
"His report will contain a complete explanation."

Every source of information should be checked; these would include growers, marketing agencies, state and national departments of agriculture, farm advisors, county agents, agricultural commissioners, banks, soil surveys, and experiment stations and agricultural college experts.

ANALYSIS

The analysis of the data secured in connection with a specialty farm calls for a rare degree of information, judgment, and common sense.

The hazards must be given careful consideration. Berries are short-lived crops and ordinarily are not immediately replanted on the same land; if replanted there at all, it is usually only after the land has been given a considerable period of rest. The cost of preparing land for berries and of the planting is relatively high. There are hazards from diseases of many kinds. Market prices vary widely. A high degree of technical skill on the part of the operator is necessary, and ordinarily this technical skill is something inherent in the operator and is not in any way a part of the value of the land.

Many successful berry operators prefer to rent rather than to own land. One reason for this is that it is easier and more satisfactory to develop new land for successive cropping than to rehabilitate land on which berries have been grown. In a rehabilitation program, beds must be worked down, irrigation structures removed, loss of fertility restored, and crops of lower income-producing ability planted in the rotation necessary before berries can be replanted and grown satisfactorily.

Most types of berries can be produced in almost any good farming district; consequently, there is little or no monopolis-

tic value in the land devoted to berry culture. The acreage producing berries can be increased rapidly if demand and price warrant.

CONCLUSIONS

The practice of many appraisers of wide experience prompts them, after a consideration of the factors enumerated above, to give no particular enhancement to the value of the land on which berries are raised; in other words, they consider the actual value of the land upon a basis of its adaptability for a diversity of crops in the hands of an average operator for the district and discount the berry enterprise because of the cost of preparation and handling, the hazards, and the necessity of rehabilitation. Consequently, it would be difficult for an appraiser to enhance greatly the estimate of the basic value of land for general crops which may be producing relatively high revenues from berries.

It would be consistent, of course, to consider the possibilities of this additional income, less the costs, hazards, and rehabilitation, and to capitalize this figure at a high rate, the same as excess rental income from business property might be considered. This, however, in many instances probably would result in arriving at about the same estimate as if the berry enterprise were entirely discounted.

The berry owner who makes profits does so not because of the value of the land on which his enterprise is located, but because of his ability to handle the labor, diseases, and marketing hazards satisfactorily and successfully. This might be said, of course, of any other farming enterprise, but it is true to a relatively higher degree in berry growing than in what might be called more stable or common farming enterprises.

In arriving at the estimate of the value of a berry farm, comparison, reproduction cost (including rehabilitation cost), and capitalization are all considered. The specific factors involved, however, make the mathematics far from a simple problem.

And so the conclusion or formation of the value estimate becomes the judgment of the appraiser, and, as in every other type of appraising, the ultimate value of the estimate depends upon the knowledge, the experience, the background, and the common sense of the man doing the job.

The conclusion may be an estimate of value in line with similar land for general agricultural uses; it may be a figure slightly higher than that if the net return, less depreciation, for the life of the berry enterprise warrants; or it may be a considerably larger figure if subdivision or other higher use is indicated.

Retail districts — Shift w Population

Shift in Location of a Retail District

By CUTHBERT E. REEVES, M.A.I.

MANY of our American cities have experienced a great shift in the location of their preferred shopping sections, but, unfortunately, these manifestations of the irresistible forces engendered by changes in our economic structure have gone for the most part unrecorded. Homer Hoyt, in his admirable study of land value history in Chicago, tells the story in a general way and traces specifically the rise and fall upon some of the many streets in that great metropolis. Similarly, Edwin Spengler describes the effect of transit facilities upon land values in New York City over a period of twenty-five years. Aside from these notable instances, little can be found, although it would seem that many an interesting narrative could be told and some forceful lessons read therefrom.

In the course of a study of assessments and assessing practice for the City Manager of Rochester, New York, which the writer directed for the Rochester Bureau of Municipal Research, sufficient data were accumulated from the past decades to record a progressive drift which probably is as pronounced as any that has transpired in a large city.

ROCHESTER, NEW YORK

For those who are not familiar with the state of New York, Rochester may be described briefly as a large industrial city located on the main line of the New York Central Railroad, about seventy miles east of Buffalo. It is on the Genesee River and has limited harbor facilities at the confluence of that stream with Lake Ontario, a few miles north of the heart of the city. Its industry is well diversified; for many years it was the center of men's clothing manufacture; it is the home of the Eastman Kodak. The country surrounding is agricultural and prosperous and includes many villages, large and small, which are satellite to Rochester, there being no competitive market place within seventy miles.

From its incorporation as a city in 1834, when its population was about 14,000 and its assessed valuation about two million dollars, by 1935 it had increased to a population of 340,000 with an assessment of more than six hundred million dollars for real property. Inasmuch as assessed valuations are the only available means by which this shift of value can be traced, it is well to state here that since 1900 the total assessment has changed in reasonable conformity with the growth in population and with the altered value of the dollar during that period. From $700 in 1905, the per capita assessed valuation has become, in five-year steps, $750, $900, $1,000, $1,500, and $1,980, with a regression to 1,870 in 1935.

Rochester represents the amalgamation of several early settlements in the vicinity of the high falls in the Genesee River, which are less than two thousand feet north of Main Street; one settlement was at the intersection of the road along the west bank of the river and what is now Main Street. Before the completion of the Erie Canal in 1825, the hamlet was all west of the river, which could be crossed only by fording. Within the next five years, buildings had been constructed to the east and, strangely, over the river itself, just as at present. The existing three-story brick buildings are carried on segmental cast-iron ribs forming arches which bridge between the masonry piers that rise from the rock bed of the river.

Like many other cities and villages located on the old Erie Canal, commercial development in Rochester centered about the intersection of that waterway with the principal road until this means of transportation gave way to improved railroads and highways. Traffic on the Canal

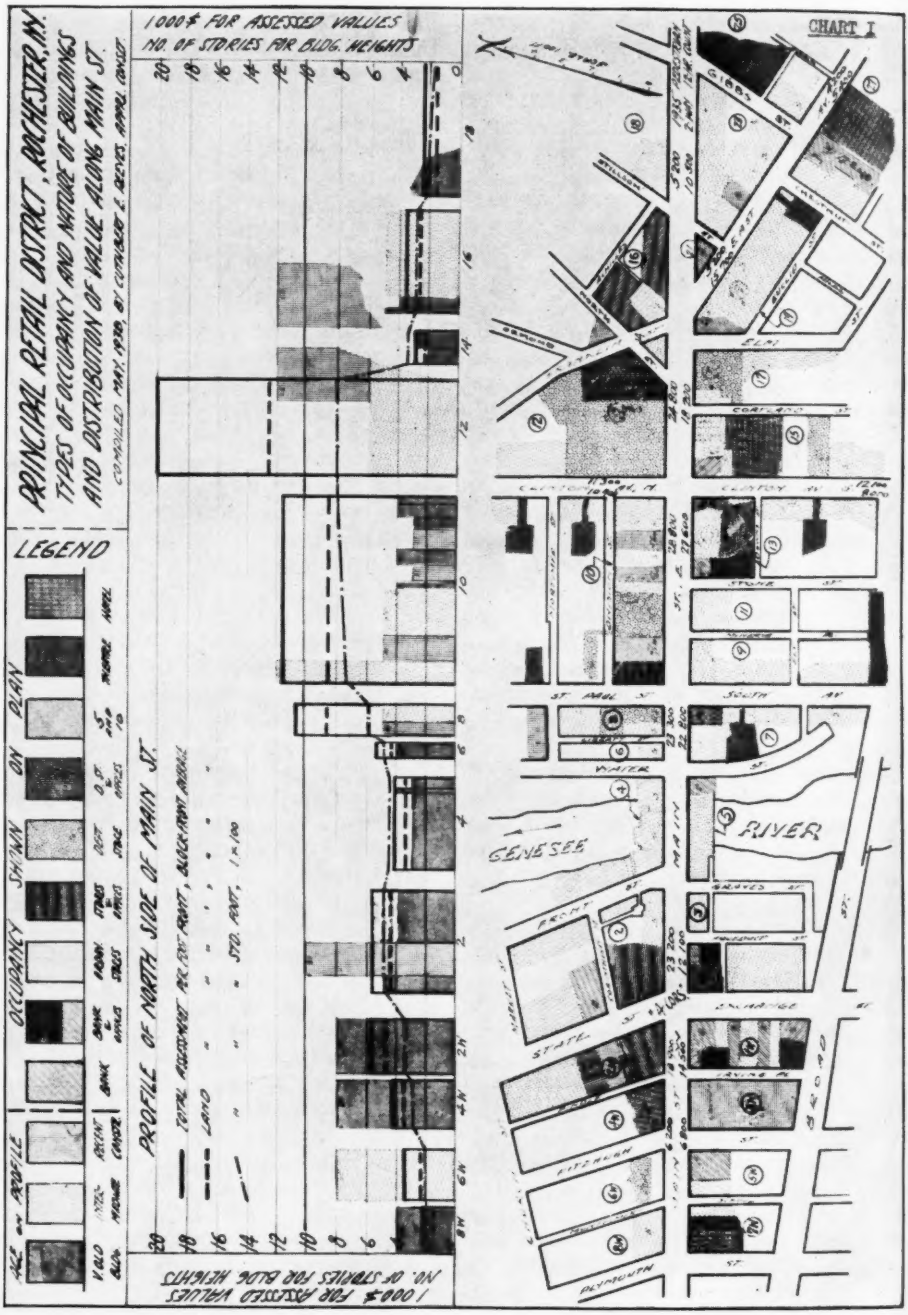

PRINCIPAL RETAIL DISTRICT, ROCHESTER, N.Y.
TYPES OF OCCUPANCY AND NATURE OF BUILDINGS
AND DISTRIBUTION OF VALUE ALONG MAIN ST.
COMPILED MAY, 1930, BY COMMERCE & INDUS. APPRL. CONSGT
CHART I
1000$ FOR ASSESSED VALUES
NO. OF STORIES FOR BLDG. HEIGHTS
LEGEND
OCCUPANCY
SHOWN ON PLAN
PROFILE OF NORTH SIDE OF MAIN ST.
TOTAL ASSESSMENT PER FOOT FRONT, BLDG. FRONT ABOVE
LAND " " " " "
" " " STD. PONT. 1 IN 100
1000$ FOR ASSESSED VALUES
NO. OF STORIES FOR BLDG. HEIGHTS
GENESEE
MAIN
RIVER
STATE
FRONT
WATER
SOUTH AV
ST. PAUL ST
CLINTON
STONE
BROAD
EXCHANGE
FITZHUGH
PLYMOUTH

CHART I

declined continuously from 1880 on; by 1900 it had shrunk to one half and by 1917 to one fourth of its 1880 tonnage. In 1918 the new Barge Canal was put in operation, which now carries nearly as much freight as the old Canal ever did, but of a different type. This deeper and wider waterway passes to the south and west of Rochester, and the old Canal has been converted to boulevards and a municipally owned and operated switching railroad. The railroad crosses the river in the old aqueduct that formerly carried the Canal, and the same piers support an upper deck, which is now Broad Street. (See Chart I.)

DISTRIBUTION OF VALUES ALONG MAIN STREET

Chart I shows the principal part of the retail district, past and present, extending along the main east and west highway and some of the cross streets. The block fronts are numbered, and several types of occupancies are identified by shading of various patterns; within the street lines, the total pedestrian two-way traffic for a twelve-hour count is recorded, as taken in 1935 for the *Traffic Survey*.

The profile embodied in the same chart shows the physical development along the north side of Main Street by the height of buildings, which are shaded to distinguish between those that are very old, of intermediate age (say, from 1900 to 1920), and of more recent construction. The value profile as of 1935 for land only and for land plus structures is pictured by platting the assessed valuation in each block front; these figures are the averages per front foot and include whatever property is assessed against the respective block frontages, whether for deep or shallow lots, big or small buildings, old or new. For example, the abrupt drop at Block 14 is due to the shallow, triangular lot and small buildings as well as to a low land unit price. Conversely, the high plateau in Block 12 is the result of a combination of deep lot, costly building, and high priced land. The continuous dash-and-dot line is different, representing the unit assessment of land for a standard foot, 1 x 100. Note that in Block 4 the total front foot assessment is less than the land unit price; this, again, is due to the shallow lots and little, old buildings, many of which are built over the river.

On Chart II, the distribution of value along Main Street and the changes in that distribution over a thirty-year period are shown for each side of the street by the total valuation ascribed to each block front on the assessment rolls in the four years cited. The heavy dots represent pedestrian traffic counts that will be described later. The third section of the chart shows the shift in two decades from what was formerly the principal tributary street, State Street at the Four Corners, to East Avenue in the opposite end of the district. In this panel, the figures represent the unit assessment of the standard foot of land only.

THE SHIFT IN THE RETAIL CENTER LOCATION

For many years after the wane of canal traffic, the Four Corners (Main, State, and Exchange Streets) dominated commercial activity. Main Street was the principal east and west road through the city; State Street led to the rich fruit belt along the lake west of the river; Exchange Street ran along the river southerly to the great farming area of the Genesee Valley. Fifty years ago this intersection was graced by what were then imposing buildings; on the northwest corner stood the Powers Office Building, one of the earliest fire-resistive structures, eight stories high, and housing a picture gallery of wide renown; it is still one of the most popular office buildings in the city. To the west of this was the Powers Hotel, equally famous, and even today a well patronized commercial hostelry. Across the street, the county hall and city hall occupied a deep block; numerous banks and other office buildings concentrated in the vicinity. Just around the corner was Rattlesnake Pete's, a rendezvous of national fame.

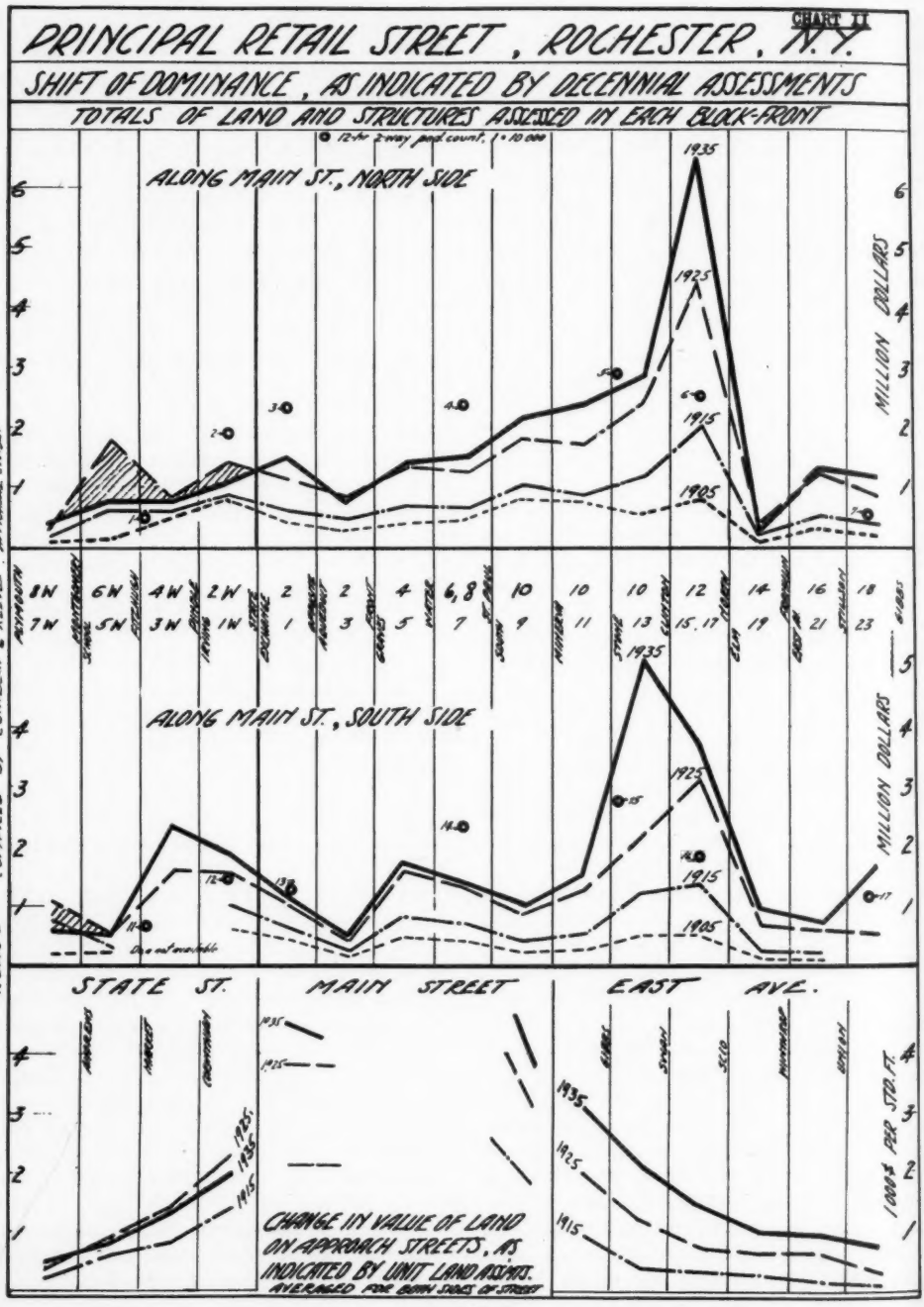

PRINCIPAL RETAIL STREET, ROCHESTER, N.Y.
CHART II
SHIFT OF DOMINANCE, AS INDICATED BY DECENNIAL ASSESSMENTS
TOTALS OF LAND AND STRUCTURES ASSESSED IN EACH BLOCK-FRONT
ALONG MAIN ST., NORTH SIDE
ALONG MAIN ST., SOUTH SIDE
1935
1925
1915
1905
MILLION DOLLARS
STATE ST.
MAIN STREET
EAST AVE.
CHANGE IN VALUE OF LAND ON APPROACH STREETS, AS INDICATED BY UNIT LAND AMTS. AVERAGED FOR BOTH SIDES OF STREET
1000'S PER STD. FT.

CHART II

From a dam just south of what is now Broad Street, hydraulic races extended north, and many flour mills on both sides of the river from there to the high falls used the water power so produced. These gave way to machine shops and other factories which formed a great industrial center in that area. With the superseding of that power, these industries moved out along the railroad, and light manufacturing and warehousing took their place.

In 1891, the Peerless Tobacco Company turned out over a million cigarettes per day on the site on the west bank of the river just south of Broad Street subsequently occupied by Cluett Peabody. These fine buildings are today in use as a city hall annex. At about the same time, the Powers Building and Hotel and several other pretentious structures were built in the vicinity of the Four Corners, but contemporaneously the Opera House and the dominating Granite Building appeared east of the river. The Bausch factory and other newcomers chose the east side, and their executives gave impetus to the growth of East Avenue as an exclusive residential street.

The opening of large railroad car shops just each of the city, the gravitation of other industries to the vicinity of the railroad yards, and the location of the principal passenger station at St. Paul Street also caused the northeast section to outgrow the west side of the city. About 1900, two of the large department stores left State Street, presumably drawn by the newer and higher purchasing power of the districts developing to the east, and a third followed soon thereafter. In 1904, a great fire gutted most of Block 10, leaving only the walls of the Granite Building standing. Although all of the properties were restored promptly and the stores retenanted, the largest department store chose to move farther east and built itself a fine home in Block 12.

At about this time an attempt was made to stem the eastward migration; a ten-story hotel was built in Block 7W; a fine building was erected in Block 6W for a new department store; and great efforts were exerted to induce the New York Central Railroad to locate its contemplated new station at State Street. These efforts failed, and the railroad station, after some delay, was built at Clinton Avenue—a move to the east instead of to the west. The department store thrived for a time under the impetus of modern housing, equipment, and stock; it has since failed, however, and the building has been without occupants for many years. The hotel also failed, but recently a substantial reconditioning re-established it for commercial patronage at rates approximating those charged by the more pretentious hotels across the river. Contemporaneously, a rival hotel was built on Clinton Avenue, just south of Main Street, and a theatre was erected across the street from that hotel. The first moving pictures in Rochester were shown on Main Street, just west of Clinton.

By 1915, the favored commercial location had definitely passed from State Street to east of St. Paul, on both sides of Main Street, and the first indication of the development on East Avenue by specialty shops appeared in the assessment roll. The apex on the north side of Main Street in Block 12 reflects the new department store building in that block front, and the flatter summit on the south may be attributed in part to the stimulus of activity on the intersecting Clinton Avenue, arising partly from the new hotel and vicinity shops.

Much of the substantial increase of 1925 over 1915 was probably due to the general adjustment of assessments which increased the per capita from $900 to $1,500, but it will be noted, nevertheless, that the rise was most marked in the favored blocks from St. Paul Street east. The development of East Avenue continued, both as to height and extent, but State Street had not as yet lost much of its relative standing. The abrupt peak shown on Main Street between Montgomery and Fitzhugh Streets may be attributed to the early success of the locally

owned department store previously cited, and the effect of this improvement as appraised by the assessor is evidenced by the accompanying increases between Fitzhugh Street and State Street. In this decade (1915-25), a fine hotel was built on East Avenue in Block 27 and a magnificent theatre, the Eastman, at Main and Gibbs Streets, in Block 25. Two very good office buildings were built in Block 16, one on Main Street and the other at Franklin and North Streets; the latter location was widely publicized at that time because the Baptist Temple was built here as a place of worship in a modern office building with stores at the street level. All of these new structures were expected to accelerate the easterly development of Main Street and East Avenue, and their construction is reflected in the amount by which the 1925 assessments exceed those for 1915 on the profiles in Chart II.

A strong eastward surge from 1925 to 1935 is shown in the profiles of both sides of Main Street. The great increase in Block 12 reflects the construction of the six-story office building addition on top of the easterly portion of the department store; this appears graphically in the profile of Chart I. On the south side, the shift of maximum from Block 15 to Block 13 is due to the construction of a modern bank and office building at the corner of Stone Street.

Just east of State Street the north side rises because of a new arcaded building built in 1932, but to the west 1935 falls far below 1925 due to the failure of the department store and the subsequent long vacancy in Block 6W. The abrupt rise in Block 3W on the south is not significant as the property involved comprises only the county hall and city hall, the valuation of which means little in this story. The drop of 1935 west of the county hall represents the assessor's recognition of lowered values in that section.

Another regression that is very significant is that on State Street, where several block fronts were appraised in 1935 at less than in 1925, although in the same period East Avenue at the other end of the commercial district rose virtually to an extension of Main Street prices and exhibited this rising trend over a block farther to the east than in 1925. East Avenue did continue to develop, as shown by the increase of 1935 over 1925, but the anticipated push along Main Street east of East Avenue did not materialize. Pedestrian traffic persisted in avoiding the island at North Street and flowed across Main Street just west of that intersection, continuing easterly along East Avenue or back along Main Street to the west. The fact that the Eastman Theatre closed its doors several years ago naturally lessened the traffic east of East Avenue, but lately the shops in Block 23 seem to have established themselves for certain types of marketing. It will be noted on the chart that east of Franklin Street 1935 rises very little above 1925 on the north side and but a little more on the south side, probably because of a new branch bank in Block 21 and the aforesaid markets and other secondary stores in Block 23.

INFLUENCE ON INTERSECTING STREETS

The story of the shift along Main Street is simulated on the intersecting streets. Front Street was formerly much in demand for secondary stores, and the area in the vicinity of Market Street housed many successful retail and wholesale establishments, but the district is now decidedly low grade in tenancy and the territory north of Corinthian Street but meagerly utilized. Water Street never was a retail location, but it has lost some of its former popularity for wholesale and warehouse purposes.

In the past, South Avenue probably was the principal intersecting street east of the Four Corners; for many years the Opera House just south of Main Street was the pride of Rochester, and the hotel opposite Broad Street thirty years ago ranked with the best. Much of the glory has departed; the theatre building houses low-priced moving pictures; the hotel is

low-class commercial and may be abandoned shortly. Lately, however, the frontage near Main Street has been rehabilitated, and it is probable that further remodeling by property owners will stabilize values in the portion of the street covered by the map. The retail development on St. Paul Street faded out very quickly, there being practically nothing beyond the Chamber of Commerce Building and the theatre shown on this map.

It will be seen that there are three theatres on Clinton Avenue in the short distance covered by this map, and there is another one, large and modern, only a short way south of this area. The most popular hotel, built in 1908 and enlarged in 1923, is just south of Main Street; the structure across the street, which once housed the best hotel in the city, is now given up to shops and a large restaurant on the ground floor, although some of the upper floors are still used as hotel rooms. Practically all the frontage on both sides of Clinton Avenue for a considerable distance south of Main Street is actively used by retail merchants; north of Main Street the character of the stores is somewhat inferior and the extent of retail use very much less.

East Avenue has for many years been famous as a residential street, graced by beautiful trees and stately homes; it still answers that description save in the vicinity of Main Street. In the course of natural expansion of the shopping district due to the city's growth and because of the higher purchasing power latent in the newly developing residential areas tributary to East Avenue, the specialty shops began to appear on that street in the vicinity of Main Street early in the century. Since then, the transition to business has been continuous, and the first few blocks are now wholly commercialized.

FINANCIAL CENTER

Although the favored retail shopping district has moved nearly one half of a mile east, it will be noted that the Four Corners still stand out as a subsummit. This constitutes an unusual feature in a city of this type and size—the presence of a financial center distinct from the retail and wholesale districts. Due to the proximity of the city and county offices, the well-maintained older office buildings and the recent construction of two more large ones, and the retention of banking headquarters in this location, it is still the focus of financial and legal activity. This may be accounted for by several facts: the principal banks have been loath to abandon their costly headquarter buildings, and several smaller ones formerly located on Main Street east of the river were closed when absorbed by the larger institutions; the old office buildings have been well maintained and are popular because of proximity to the city hall, county hall, and banks; two new buildings supply highly modern office space, one at the corner of Exchange and Broad Streets and the other as shown in Block 2; and the flow of vehicular traffic and access to the high-speed passenger service of the subway are better here than to the east. Restaurants and those shops which supply the needs of these types of business do well in the immediate vicinity, but retail commerce fades out very quickly beyond this "Rock of Gibraltar."

CONCLUSIONS

Having absorbed this brief historical sketch, the reader may well ask what lessons are to be drawn therefrom, what unusual features appear, and what natural characteristics are revealed. The distinct separation of the financial center from the principal shopping area has been commented upon; the absence of all theatres from the main street throughout the shopping section is somewhat unusual. The far more intensive development of Clinton Avenue south of Main Street, despite the admittedly great supremacy of the north side on Main Street itself, provokes one's curiosity. It may be ascribed to the pull of the hotel, the successful department store south of the hotel, the modern theatre beyond that,

and to the recent trend of new residential growth to the southeasterly section of the city. Then, too, the configuration of streets north of Main Street at this point and the occupation of so much of Clinton Avenue frontage by the big department store tend to discourage any great spread in that direction.

Several very logical conclusions may be drawn from a study of the map and the profiles. The salient points discernible are:

1. That retail shops will drift in the direction of the mass of population and concentrate upon that main artery of traffic which is readily accessible thereto.
2. That such a drift may be accelerated by the migration of well-established merchants.
3. That location is paramount and merchandizing does not necessarily require multi-story or otherwise costly buildings.
4. That natural trends of expansion in a shopping district may be augmented somewhat by provision of appropriate structures, but that such physical facilities alone cannot draw business into new channels.
5. That pedestrian counts may be misleading if not detailed as to the types of pedestrians, the time of their passing, and their itinerary.

The first is evidenced in this case by the progression along Main Street; on the north side it has been toward the older ,densely populated area; on the south side the reflected influence of the north has been stimulated by the more recent residential building in the southeast section of the city and by the transition of East Avenue from residential to commercial use. St. Paul Street and Clinton Avenue are the principal thoroughfares to the residential section on the north, the south is reached by Clinton Avenue and South Avenue, and Main Street and East Avenue collect traffic from the east and west. From the city's early development with the first three wards west of the river, the population distribution gradually changed so that 60 per cent lived east of the river by 1920, 38 per cent being in the northeast quadrant. Since then, new industries in the northwest section have stabilized the population situs and may have even slightly reversed the flow. There are strong indications that the drift to the east is diminishing and that future expansion may surge back, the beneficiaries of such a movement probably being the intermediate section of Main Street near the river, as well as the principal cross streets.

The second point is corollary to the first and has been illustrated in this city by the celerity with which other merchants followed the big stores in their exodus from State Street. The intensive development of Clinton Avenue, south of Main Street, may be attributed in part to the pioneering of a successful merchandiser in the department store shown on the map; incidentally, the parking lot between this and the hotel has just been acquired for expansion of the department store.

The profile in Chart I offers excellent verification of the third conclusion. Note that, where unit land value and total valuation per front foot are highest, they rise well above the profile of physical development and that, conversely, the tall buildings in the passé district to the west tower far above the value lines. To more effectively receive this impression, one should blank off the Baptist Temple Building rising from the rear of Block 16, which is not comprehended in the values platted for that Main Street frontage.

More specifically, observe that the land in Block 10 rises to a maximum of unit value despite there being only one building more than five stories high (and it is thirty years since that was rebuilt), only three buildings reasonably modern, and one third of the frontage covered by eighty-year-old structures, none of which has had more than a "face lifting."

The same condition is to be observed in Block 4 and the east end of Block 2, where the land unit remains relatively high despite the uniformly very old and barely useable buildings. The writer does not claim that a thriving retail district of any great magnitude can develop or exist without the presence of any substantial buildings in the community or in the

near vicinity. It has been stated, and with some plausibility, that much of the shopping activity arises from those having business to transact with the numerous occupants of office buildings and from those occupants themselves. Apparently, however, shopping is a peculiar function and not to be confused with other errands; it may be highly localized and virtually independent. From the situation depicted in this map, one might easily conclude that office buildings, theatres, and hotels follow the retail shops rather than precede them.

An interesting point arises with the claim of the owners of Block 12 that the Main Street frontage therein should be appraised at less per unit than in the block next west, and there is merit in that contention. Tenants in Block 10 profit from the advertising and general eminence of their big neighbor, and owners need have no fear of vacancy. Who can say what occupancy would develop for Block 12 were the great merchandiser there to move away; one might well expect the trend line of land value to break radically from the high plateau as presently appraised.

A striking example of the failure of mere physical facilities for merchandising to hold that business against a definite drift is the eight-story structure on Block 6W. This has been described heretofore as built in the effort to anchor retail trade west of the river. Helped by the construction of equivalent facilities by rivals at the east end, the tide of favor gradually receded and left the business a wreck and the building derelict—for retail utilization at any rate throughout its great floor area. Relating it to its neighbors on the profile, with both age and height in mind and cognizant of the unit land value, one might, without such historical knowledge, say "misplaced."

Turning now to the fifth conclusion, note from the map that the pedestrian count in 1935 at both stations between State Street and St. Paul Street on the north side approximated that at Cortland Street and was only 20 per cent below the high mark opposite Stone Street. The figures in the following comparison of 1935 with similar observations for three other years might lead one into the same fallacious conclusion as to the relative desirability of stores west and east of St. Paul Street.

Instead of being only slightly more valuable than the blocks to the west, stores on the north side, east of St. Paul Street, rent for more than twice as much, and those on the south side produce nearly as great a difference. The misconception arises from the fact that the twelve-hour count records the great number who throng the streets at traffic points from 7:00 to 9:00 A.M. and from 5:00 to 7:00

TWELVE-HOUR, TWO-WAY PEDESTRIAN COUNT—MAIN STREET

Station at			1931	1933	1935	1937
1	Fitzhugh Street	N.	19,980	11,450	6,170	9,720
11	Fitzhugh Street	S.	14,980	10,225	6,810	13,210
2	West of State Street	N.	22,990	23,560	18,880	16,150
12	West of State Street	S.	17,240	19,400	14,470	14,400
3	East of State Street	N.	29,290	x	23,200	15,970
13	East of State Street	S.	15,930	x	12,130	15,190
4	West of South Avenue	N.	29,230	x	23,280	16,750
14	West of South Avenue	S.	20,050	x	22,840	29,100
5	Stone Street	N.	43,310	38,710	28,840	40,810
15	Stone Street	S.	26,700	17,320	27,620	21,140
6	Cortland Street	N.	36,670	24,130	24,840	23,670
16	Cortland Street	S.	31,150	23,110	18,190	28,700
7	East of Stillson Street	N.	7,820	6,500	5,150	9,750
17	East of Stillson Street	S.	9,070	10,730	10,540	6,600

P.M., en route to and from work, and also the midday crowds, lunching or out for an airing. The reports from which these figures are reproduced were made for traffic studies and therefore cannot be expected to furnish reliable trade indices.

Chronologically, the tabulation gives more dependable indications. On the north side, the falling off at Fitzhugh Street due to the closing of the department store is definitely shown, and a lesser but constant diminution appears at the other station west of State Street. About the same decline from 1931 to 1935 is evidenced east of State Street, but most of this territory shows a surprising recovery in 1937. The great increase of the south side at Station 14 in 1937 and a similar reversal at Station 6 seem to indicate confusion in reporting the two sides of the street, but the counts are claimed to be as stated.

Notwithstanding our previous disparagement of this type of traffic count as an index to shopping location values, it must be admitted that there is a general resemblance between the assessment profiles of 1935 and those produced by tracing the trends of the dots representing the twelve-hour pedestrian count. Rising to the Four Corners, the count reaches its greatest height in the block west of Clinton Avenue and declines from there on to the east.

The moot point previously cited, that land in Block 10 is intrinsically more valuable than in Block 12, seems to be supported by their traffic ratio as depicted on the profile and by comparing Stations 5 and 6 throughout the years in the foregoing tabulation.

This conclusion should be modified, however, by allowance for the considerable diversion of pedestrians from the sidewalk at Station 6, due to many by-passing through the department store itself, between the entrances at Clinton Avenue and at North Street.

Tersely reviewed, it seems that while the city's population doubled during the past thirty years and its assessed valuation multiplied five times, this central shopping center moved nearly one half of a mile to the east, leaving its former location to financial and general business activities; that on the principal street in this retail district the frontage is now devoted almost exclusively to retail stores, there being no theatres nor hotels on either side and no banks on the preferred side; that the most valuable retail location is improved by nondescript and relatively insignificant buildings; and that retail trade sets its own boundaries.

The Appraisal Docket

Cases, decisions, and other matters involving rulings and precedents affecting real estate and valuation.

William Wilson, Editor
John C. Butler, Assistant Editor

WE THINK it only meet that on occasion we embellish our remarks with quotations from the classics. As we are undertaking in this issue to remark anent some legal decisions which popularly may be yclept as classic, the occasion for such embellishment aptly arises.

* * *

Polonius. What do you read, my lord?
Hamlet. Words, words, words.
Hamlet, Act II, Scene 1.

In *Appeal of Kliks,* —— Ore. ——, 76 P. 2d 974 (1938), the taxpayers-appellants challenged the validity of the assessment of an apartment building owned by them. The gravamen was the customary charge of overvaluation. In order to sustain this, appellants had introduced testimony as to: (1) the size and location of the lot; (2) the description of the improvements; (3) the consideration then contemporaneously paid for the property; (4) the reproduction cost of the building; (5) mention of the net income; and (6) the comparability of other properties in the vicinity and of their assessment. The Court held that all such testimony was insufficient to overcome the presumptions that the assessor had faithfully and properly performed his duty and that the several assessments effected relative uniformity. Commenting on the appellants' testimony concerning the description of the property, the Court said:

"The above is virtually the only description which the record affords of the building. No witness told whether the building has a sloping or flat roof, nor mentioned the material out of which it was made; whether the building has large windows, many in number, giving a cheerful interior, or only small ones, is unknown to us. Likewise, no one mentioned whether the apartments are well designed or whether excessive space is consumed in hallways and other unrentable areas. The record does not disclose whether the building's heating plant is adequate or is a source of complaint by the tenants; in fact, the record does not indicate whether the building is heated by steam, water, or hot air. Likewise, the record does not disclose whether the plaster was left rough for kalsomine treatment, or whether it was given a finish coat upon which attractive wall paper has since been added. The kind of the light fixtures and the numerous other features often found in buildings of this kind was not mentioned. The height of the ceilings and the kind of wood used in the interior finish is not disclosed by the record. While Mr. Kliks complained that two of the apartments are so small and that the building has too many apartments consisting of only one room and kitchen, neither the size of the rooms nor the width of the halls was stated by any one. No photographs of the building or floor plans of any part of it was introduced in evidence." Page 977.

Why must the kitchen sink always be left behind?

We strongly suspect that the above language is merely the attempt of the Court to rationalize its desire to uphold the appraisement of the tax assessor. If such is the case, the decision may be severely criticized, not for the result, but for the camouflage used to justify it. For from now on the Oregon taxpayer will have to do everything but bring his property into court when he makes complaint of his taxes.

* * *

"He that useth many words for the explaining any subject doth, like the

cuttlefish, hide himself for the most part in his own ink."

John Ray, *On Creation.*

We shall now ask of you who venture this far a forthright question: What is value? Can you define it? Is it not an inexplicable phenomenon? And, pray, what is market value? true value? full value? just value? And, again, what is fair market value? true cash value? true cash value under normal conditions? What is market? true? full? just? fair? normal? When we venture into the morass of verbal definition of all these intangibles do we not end up by mystifying a myth? *Appeal of Kliks, supra,* is but one of many cases which puts on exposition the pitifully ludicrous spectacle of judicial stewing in judicial juice. "True cash value," it is said, "is not necessarily the equivalent of market value nor of liquidating value." It is, however, (by legislative enactment) "the determining factor in making the assessment." Your guess is as good as ours.

Apropos of this point, a most interesting decision has been handed down recently by the Court of Appeals of New York. *In re Board of Water Supply of City of New York,* —— N.Y. ——, 14 N.E. 2d 789 (1938). Such involved a taking by eminent domain of property on November 16, 1936. The constitutional requirement in New York of just compensation in eminent domain is met and measured by fair market value as of the date of taking, or so 'tis said. But in this case the property in question was said to have had no fair market value as of the date of taking. The Court, therefore, permitted the reception and consideration of evidence of market value as of the nearest earlier date when the property possessed such an animal, in the instant case, as of October, 1930. This rule is a practical one to know; its attempted justification is impractical to make, as did the Court:

> "'Fair market value' means neither panic value, auction value, speculative value, nor a value fixed by depressed or inflated prices. 'Fair market value' of property actually taken as of the date of appropriation resides in an estimate and a determination of what is the fair, economic, just and equitable value under normal conditions." Page 792.

* * *

"High Air-castles are cunningly built by Words, the Words well bedded also in good Logic-mortar; wherein, however, no Knowledge will come to lodge."

Carlyle, *Sartor Resartus.*

It is a well-mouthed rule of law that speculative or remote damages are *damnum absque injuria.* The judicial determination of what is speculative or what is remote gives the necessary play to the application of this rule to the facts of a given case. We set forth two illustrative cases here.

1. *State* v. *Trotter,* —— Ind. ——, 14 N.E. 2d 550 (1938) involved the condemnation of land for highway purposes. The property in question was a triangularly shaped farm with public highways on both sides; the land at the base of the triangle was being condemned for another highway. The farm was used to raise turkeys. The farmer, over objection, was permitted to show that 650 turkeys had been stolen from the place in 1935; witnesses testified that liability to theft would be increased by the new road. Thus, the farm was said to be made less valuable. It was held that the increased danger of theft was too remote and speculative for consideration as an element of damages to land. Likewise, the cost of the hire of a watchman and the cost of the erection of a special fence to keep out trespassers (though not such a fence as would keep in the turkeys, peregrinating on their own volition) were irrecoverable damages.

2. *In re Platte Valley Public Power and Irrigation Dist.,* —— Neb. ——, 278 N.W. 492 (1938) involved also the condemnation of farm land—this time to acquire an easement of right of way for electrical transmission lines. The power company had circularized by letter all persons along the transmission lines, warning them of their dangerous character. The Court held that the consideration of this letter by the jury was proper, that the fear engendered by the high voltage wires may properly be shown to affect the depreciation and value of the land on a resale. The elements of danger were not remote, speculative or conjectural. *Contra: Illinois Power and Light Corporation* v. *Peterson,* 322 Ill. 342, 153 N.E. 577, 49 A.L.R. 692 (1926).

So it seems that 'tis just that that which is speculative is unjust, but just what is speculative is speculative.

* * *

"Then horn for horn they stretch and strive;
Deil tak' the hindmost, on they drive.

Burns, *To a Haggis.*

A corollary to the Darwinian principle of survivorship by self-help is what may be called the law of compensation. This latter law is illustrated by the blind, whose hearing since blindness has become better; by the deaf, whose sight improves. As one is thwarted in one way, so turns he his development in another. It is our purpose to suggest in facetious form a proper application of the law of compensation.

It is no longer considered necessary that one should deal with another at arm's length: the gull is now within the ægis of governmental paternal-

ism, a situation which is fast alleviating the application of the law of survivorship save to those whose wits and industry are above the average. *Caveat emptor* has in recent years become *caveat venditor*, and apron strings become in place of the marriage knot the tie that binds. All this represents a change from "the good old days." But what is to compensate us for this evolution? Are our mental teeth and nails to be of no use, to become atrophied? Oh, no indeed. They may now and with good purpose be turned in warning mien upon those whose service is to the public, whose responsibilities and, also, rights have grown commensurate with the dwindling of those of whom they serve.

The phrase "a public office is a public trust" is "a horse and buggy" aphorism of so ancient a vintage that it has by now become public property, its origin in dispute. Ergo, it is outmoded, according to some, and its contemporaneous application, therefore, would seem to be highly dubious. The courts of law, however, still ruminate upon its philosophy, as witness *Appeal of Kliks*, *supra*, wherein it is said that "since courts always presume, in the absence of evidence to the contrary, that official duty has been properly performed, the appealing taxpayer is met with a presumption of official rectitude." (Page 981) Thus, even though a property nets, before depreciation and taxes, only $199.50 per year for a four-year period, the assessor's valuation of $15,500.00 was allowed to stand. *State* v. *Penn Mutual Life Insurance Co.*, 198 Minn. 115, 269 N.W. 37 (1936). Such was a case involving, not official rectitude, but official competency. To the taxpayer, however, such is a fine distinction. Nor is it a distinction given much weight in Illinois. *The People* v. *Wilson*, 367 Ill. 494, 12 N.E. 2d 5 (1937). There property was assessed at $43,200, though in the same year as the assessment a voluntary sale of it had been made for $15,360, of which the assessor knew. The average net annual income for the four-year period preceding the assessment had been $467.09. It was said at page 497:

> "It has also been repeatedly held, by this and other courts, that where the circumstances show the property to have been grossly overvalued and the assessed valuation is reached under circumstances showing either lack of knowledge of values on the part of the assessor making the assessment, or a deliberate and knowing fixing of values contrary to the known value, fraud, in law, will be inferred, and the court will protect the rights of the taxpayer."

We submit this latter decision as sound. To the person injured, official immorality and official incompetence is an unassuaging difference. Further, we submit that the recently rapid spawning of public offices and public duties will increase the probabilities of injury; in the increasing encroachment of governmental regulation such is bound to accrue in due proportion. The apotheosis of public officials should, then, be doubted, and the infallibility of their acts denied.

It may be said that to adopt such a philosophy of dubiety would make for instability in governmental activity. This perhaps is appropriately answered by the words of the Supreme Court of the United States in *Morgan* v. *United States*, 303 U.S. ——, 5 Law Week 1006 (1938) (the "fair hearing" decision):

> "The maintenance of proper standards on the part of administrative agencies in the performance of their quasi-judicial functions is of the highest importance and in no way cripples or embarrasses the exercise of their appropriate authority. On the contrary, it is in their manifest interest. For, as we said at the outset, if these multiplying agencies deemed to be necessary in our complex society are to serve the purposes for which they are created and endowed with vast powers, they must accredit themselves by acting in accordance with the cherished judicial tradition embodying the basic concepts of fair play."

What to Read

Comments on recent surveys, books, and articles of interest to real estate appraisers.

C. M. Jones, Editor — Librarian, American Institute of Real Estate Appraisers

Book Reviews

Schmutz, George L. CONDEMNATION APPRAISER'S HANDBOOK. *New York: Prentice-Hall, Inc., 1938. 339 pp., $5.08.*

AT last the practical appraiser gets a break! Here is a book that is "right up his alley," written by a man who knows how to do it—how to teach it—and how to write about it. During the past few years several outstanding books on valuation principles and practice have been published. In general, however, they have tended either to weave a mantle of mathematical mystery around the art of appraising or to present the subject in the form of ponderous legal tomes that are more suited to the classroom than to the needs of the man on the street. It is indeed refreshing to find that George L. Schmutz, in his *Condemnation Appraiser's Handbook*, just off the press, has delineated *the appraisal process* as a matter-of-fact, common-sense job—a job to be done by the man who knows how—the man who is equipped with all of the essentials but who nevertheless exercises trained judgment rather than relying basically upon mathematical formulae.

This is, in fact, more than a handbook on condemnation appraising, as its title signifies. The author actually lays the groundwork for real estate appraising for any purpose, and he very logically justifies his approach to the subject in the Preface to the book when he says:

> "In all fields of scientific endeavor, particularly the observational sciences such as appraising, a knowledge of fundamental principles ranks paramount to all other knowledge. Many new problems differ from previous problems. The logical point of commencement is indicated by fundamental principles. A knowledge of these is the indispensable part of the appraiser's mental equipment."

Mr. Schmutz then proceeds immediately to present and discuss these fundamental principles of valuation before going into their application to the problems arising in the process of the taking of private property for public use.

Part I is devoted to the orderly development of "Appraising the Entire Property." It starts out with "The Valuation Process" itself and then discusses "Highest and Best Use," the treatment of "Depreciation," the mechanics of capitalization with interest tables and their use, and, finally, the practical application in the appraisal of leasehold interests, "Rock, Sand, and Gravel Deposits," and "Water Rights."

Part II covers the particular problems arising under "Condemnation Proceedings." The legal background, court procedure, and the presentation of expert testimony are thoroughly treated as leading up to the concept and estimation of market value—the appraiser's primary task. In the chapter on "Market Value" the author does not "hold his punches"—he goes right to the point and gives a most enlightening exposition of the distinction between *price* and *value*.

Part III consists of a practical discussion and demonstration of the appraisal procedure in matters of expropriation. The chapter on "Severance and Consequential Damages" is particularly clear and enlightening and should be of equal interest to lawyers and appraisers, as well as to the courts who have to consider these problems. The complexities involved in equitably segregating the interests of the lessor and lessee in both a total and a partial taking are clearly

presented with practical examples. In fact, the most outstanding value of this entire work is in the presentation of numerous "case" illustrations that run through all chapters and phases of the subject. This method makes for greater clarity and should form invaluable aids in actual problems faced by the condemnation appraiser.

The appraisal of "Easements" is accorded a separate chapter—as is also the "Vertical Divisions of Value," wherein the *air lease* is presented with an interesting illustration in the famous Chicago Daily News air lease from the Chicago Union Terminal.

Nor does Mr. Schmutz stop here. Part IV sets forth informative suggestions for "Writing the Report," the preparation and use of charts, and a brief summarization of the Rules of Professional Ethics of the American Institute of Real Estate Appraisers. An "Addenda" includes twenty-six tables embracing most of the mathematical material needed by the practical appraiser, standard algebraic and trigonometric formulæ, and finally an imposing list of legal citations in condemnation cases catalogued and cross-indexed alphabetically and by subject headings.

Without question this is the most informative treatment of the various problems arising under eminent domain that has heretofore been made available under one cover. To the appraiser who is or expects to be engaged in condemnation practice it will be of real and direct practical value. The sole criticism upon the part of the initiated might arise from the wish that Mr. Schmutz had entered at greater length upon some of the more complex but fascinating problems which he suggests here and there throughout the work. To have done so, however, would no doubt have defeated the real purpose of the book.

George L. Schmutz has contributed a great deal to appraisal thinking and practice in his teaching and writings in the past. With his *Condemnation Appraiser's Handbook* he has made a further material and valuable addition to the appraisal literature of the day.

K. LEE HYDER, M.A.I.

Milwaukee, Wisconsin.

* * *

Cornick, Philip H. PREMATURE SUBDIVISION AND ITS CONSEQUENCES. *New York: Institute of Public Administration, Columbia University, 1938. 346 pp. $1.50.*

THE task of the review of such a book as Cornick's *Premature Subdivision and Its Consequences* is far from simple. The book is not only as full of meat as an egg, but the implications of its contents are so numerous and important that succinct comment is difficult and at times hazardous. Besides, in many of its aspects, the work is a pioneer in the field, and consequently comment by the comparison method is automatically precluded.

Mr. Cornick traces broadly the history of premature subdivision in New York State and then more particularly in five metropolitan areas of the state; measures its extent; and then relates this premature subdivision to the problems of tax arrears, cost of government, and land use. He then rounds out the discussion with an examination of existing methods of control over subdividing activity and concludes with suggestions for remedial measures to close the gaps in present control and to prevent a repetition in the future of premature subdivision and its attendant burdens upon taxpayers.

The fact of premature subdivision on a large scale is generally known, although too few statistical measures of its extent are available. This study is another important link in the chain of factual evidence on that point. It relates the current supply of vacant lots to present and possible future population; shows suburban areas (outlying towns) to have been the scenes of the greatest activity; and suggests some of the natural as well as man-made factors which have supplied the "talking points" for the land developers.

Not nearly so well known, however, are the facts about the effect of this untimely and disproportionate activity on local government and taxation. The data supplied by Mr. Cornick on these points are probably the major contribution of this work. It is perfectly clear that premature and excessive subdivision cannot be treated as so much water over the dam. The implications of such excesses still remain; local governments are still wrestling with foreclosure, title, and planning problems, as well as struggling to meet their debt obligations; and taxpayers are still bearing the burden in heavy real estate taxes. The shifting of the costs of premature subdivision to those taxpayers in the community who have retained their properties is perhaps the strongest argument which could be sounded against a repetition of past practices—or rather it would be if taxpayers generally were aware of the extent to which they are paying for the "piping" that brought these surplus lots into being. Many more studies like this one by Mr. Cornick are needed to publicize the facts about the burdens which premature subdivision places upon local governments and taxpayers generally.

The figures on the relative contributions of improved and vacant lots to the problem of tax delinquency are striking. Data for the major portion of the area covered in this study show that 82.4 per cent of the total number of tax delinquent parcels were vacant lots and that these vacant lots accounted for 67.6 per cent of the total dollar amount of tax arrears. Clearly, the increased burden which falls on the balance of the community to keep up payments on the

obligations issued to obtain funds for improvement of these lots constitutes a very sizeable part of the total real estate tax bill of such areas.

There is much food for thought here also for Realtors, appraisers, and all interested in transactions in urban real estate. Much hue and cry is raised over the burden of real estate taxes. But how can the professional real estate dealer cry out too loudly against this burden when a very considerable part of the present dilemma can be traced back to the doorstep of some of their number? Does it not behoove them to put their own houses in order before calling for relief from other quarters?

This does not mean, of course, that other agencies also do not have responsibility in this situation. As Mr. Cornick points out, much needs to be done in the improvement of tax foreclosure machinery, tax title procedures, control over land use, and regulation of powers of local governments. Many groups have stakes in the problem, and Mr. Cornick has suggested some of the methods by which the different interests may be reconciled with a consequent strengthening of future programs of urban land development.

Mr. Cornick's discussion of subdivision control techniques provokes much thought, but, to the extent that some of his suggestions arise out of the specific relations among various layers of local government in New York State, comment on them is not pertinent here. His discussion, however, does suggest lines to be followed in studies of other areas—lines such as control over the debt limits of local governments, revision of tax lien foreclosure and tax title procedures, etc. Of more general significance and application are his recommendations for revision of replatting powers and the extension of zoning control. The latter he would strengthen by two methods: (1) by extending zoning control to close the gap which now leaves a sort of no man's land (notably the suburban areas where most premature subdivision and its problems have arisen) between urban and rural zoning regulation; and (2) by basing it upon the objectives which are the foundation of rural zoning—namely, protection and strengthening of the tax base and the promotion of public economy. The enforcement of more uniform land-use patterns by application of improved zoning techniques would help to stabilize the tax base, and greater economy in the extension of public improvements would be a boon to local fiscal management. Both of these objectives are as fruitful for better urban as for better rural land-use development.

While Mr. Cornick's data are drawn from urban areas of New York State, it is a well-known fact that New York experience is not unique. In other words, the findings of this study are applicable in general, if not in particular, to metropolitan areas the country over. This does not mean, however, that more facts need not be assembled. Mr. Cornick would be the first to admit that only a beginning has been made. For example, the costs which are attributed to excessive subdivision in this study are only those assignable to specific localities and types of property, i.e., costs of paving, water and sewer lines, etc. The picture he paints would be even more striking if costs of police and fire protection, costs of utility extensions, and costs of schools and similar community services were included. In short, we still do not know the full cost and implications of boom tactics in real estate, and, until we do, truly effective remedial and preventive steps cannot be taken.

HELEN C. MONCHOW.

Chicago, Illinois.

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Walker, Frank R. THE BUILDING ESTIMATOR'S REFERENCE BOOK. *Chicago: Frank R. Walker Co., 1937. 1682 pp. $10.00.*

THE eighth edition of this book, prepared by Frank R. Walker, of Chicago, has been published recently. All of the prior editions have been helpful to estimators.

The writer is always interested in reading the preface in a book of this character. The first paragraph reads as follows:

> "The Eighth Edition of this book, completely revised after six extremely depressed years in the building industry, has been brought up-to-date in every respect."

Then follows briefly the methods used in bringing this about. One sentence is worthy of special consideration:

> "With the best estimating data available, it still requires experience, good judgment and common sense to prepare accurate estimates."

A paragraph in the original preface reads as follows:

> "To the casual observer, or one not understanding building conditions, the prices may appear indefinite or with too great a variation of labor quantities and costs. This is easily explained. A brick mason will lay more brick on a bright warm day than when the thermometer is at freezing. A carpenter will lay more hardwood flooring in one large room than in ten small rooms requiring the same amount of flooring, etc., etc."

And this principle seems to be carried out all through the book.

The reading matter is divided into twenty-eight chapters and covers 1658 pages, well illustrated, to which is added an alphabetical index covering over 3,000 individual items.

The first chapter, covering forty-eight pages,

discusses the various general details of estimating work; the subject is well handled, and there is apparently nothing omitted. From here, Mr. Walker starts "from the ground up," the next chapters covering excavating, back-filling, wrecking, etc. This is followed by several chapters on concrete work, starting with foundations and retaining walls and covering all phases of the subject. Next come chapters on brick masonry, glass blocks, hollow tile, stone, terra cotta, etc., followed by chapters on carpentry and mill work, painting and glazing, and roofing and roofing material. Still other chapters give detailed information regarding inside finish, with an interesting chapter on structural iron and steel work. The closing chapters cover interior construction, such as elevators, refrigeration, heating, air conditioning, plumbing, gas fitting, and electric wiring.

A careful study of the book gives one the impression that the subjects are treated very fully and completely.

It would be a miracle, of course, if a book of this character were prepared in such a manner that there would be no criticism of any of the statements in it. A few instances were found which might be subject to different opinions, but in every case those holding opposite views to the author are fairly treated. For example, attention is called to a section (page 5) entitled "What About Contingencies?" The paragraph intimates that the figuring should be done so carefully that there is no necessity of adding for contingencies. Many of our best estimators will take issue on this point, and the paragraph so states.

In general, it is the writer's opinion that this book is invaluable to one whose principal business is estimating building costs and very helpful to appraisers who are from time to time obliged to go into details regarding construction costs.

ARTHUR D. WALL, M.A.I.

Denver, Colorado.

New Articles

"SEVEN KEYS TO REAL ESTATE VALUE," by Frank D. Hall, M.A.I.

The chief appraiser of The Equitable Life Assurance Society of the United States sets forth seven questions which he believes must be answered about a property in arriving at its value. Briefly, they are: (1) conformity to location; (2) trend of demand for such property; (3) reproduction cost; (4) amount of annual income; (5) compensation for management; (6) duration of economic life of building; and (7) rate of return on investment. The good appraiser must have available a great deal of data in order to determine the above, but this is not enough. He must have an experienced technique in drawing proper assumptions and possess an open mind. *The Economist, June 25, 1938, p. 18. $0.35.*

* * *

"INDUSTRY RETAINS GAINS IN OFFICE OCCUPANCY," by L. V. Echols.

The forty-second periodic survey of the National Association of Building Owners and Managers reports an 81.91 per cent average occupancy. These reports were based upon 2,301 buildings, with a total rentable area of 200,893,086 square feet, which should be a fairly accurate cross-section of the general situation. Of the eight regions broken down, the southern has the highest occupancy ratio of 86.51 per cent. Several interesting tables give the details of this survey. The comprehensive report by cities gives the total space in square feet, vacancy and occupancy per cent, change in occupancy per cent since October, 1937, store vacancy, and city population. There is also a table giving the comparative vacancies over a ten-year period, a table showing expansion and contraction of space, and another giving the vacancy and occupancy by square feet and per cent for the eight regions and Canada. *Skyscraper Management, June, 1938, p. 6. $0.45.*

*

"DISPARITIES IN LAND VALUES," by John E. Burton.

"This paper is designed to suggest the hypothesis that sufficient eruptions appear upon the face of uniform land uses to warrant a qualification of the *principle of uniformity* of land values—the bulwark of land-value assessment systems." The writer seems to think that the problem arises from frequently substituting known value-indexes of certain properties for similar parcels of land by the comparison and summation methods of appraising. Three examples which exemplify the breaking up of the uniform possibilities of land use are set forth. They include truck farms and subdivisions in suburban Cook County, Illinois, and large skyscrapers. It is easy to see that where under-improvement and over-improvement uses mingle within a given area variations in land values will exist. Land united with an improvement either too high or too large as to be a "white elephant" is of less value than if improved with a more lowly structure or not improved at all. This irregularity in land-use values is not confined to cities but can be found

in small towns as well. *The Journal of Land and Public Utility Economics, May, 1938, p. 201. $1.45.*

* * *

"VERIFICATION OF INCOME AND EXPENSE ITEMS," by E. J. McConnell.

This is a new magazine published semi-annually, and we consider it "tops" for rural appraising and managing. The article chosen from the latest issue gives an appraisal step by step of an average farm with a chart showing an income and expense statement. The writer states: "In using the income capitalization method of appraisal, Owner's potential net income, as derived through the income-expense table, is a major factor in the determination of the BASIC VALUE of the farm on good land." Fifteen years ago the rural appraiser based his judgment of value upon the appearance of the farm and upon a comparison of it with other farms recently sold in the community. The modern appraiser in determining basic value employs every available source of information to prevent error. Presented here is a very good and complete bibliography of source materials at the disposal of farm appraisers. Not to be neglected as a source of information is a detailed study of the farm and its operator. When the operator is off guard is the time to check yields and acreages with him. During the process of collecting data from a variety of sources, care must be taken to be accurate, making use of records to check data relating to the various items. Care too must be exercised to see the farm as a whole and with an unbiased mind. *Journal of the American Society of Farm Managers and Rural Appraisers, April, 1938, p. 30. $0.70.*

* * *

"POPULATION TRENDS AND PROPERTY VALUES," by Arthur M. Weimer.

The appraiser is interested in population trends because of their effect on city growth and the effect of city growth on property values. There are certain past tendencies which give an indication as to future probabilities. There are a few questions about population trends and property values which are probably uppermost in your mind and which this article seeks to satisfy. What are the prospects of the future growth of population? How will this influence the rate of urbanization? How will specific cities and neighborhoods be affected? What will be the influence of such changes on land values? First of all, the most important factors determining population are considered, i.e., natural increase and migration to or from the country. Both the birth rate and the immigration rate have declined in recent years. Dr. O. E. Baker, of the Department of Agriculture, estimates that in 1950 we shall have a population of about 133,000,000. Here is the conclusion reached by Mr. Weimer in his study of population trends: "Finally, the slowing down of the rate of total population growth, the tendency toward a static population, and the probability of a decline in the general rate of urbanization will tend to eliminate the exceptional advances and declines in property values which have been characteristic of our past history."*The Review of the Society of Residential Appraisers, May, 1938, p. 3. $0.55.*

* * *

"SPECIAL BUILDING COST INDEXES."

The latest issue of the *Engineering News-Record* contains the "Construction Cost Guide." Glancing through this special section of 100 pages we notice many items of interest to appraisers. Among them are: "Public Utility Construction Index," "Unit Bid Prices," "Prices of Construction Materials," "Construction Wage Rates," "Unit Costs of Buildings," "Concrete and Earthwork Costs," "Pipe Laying Cost Trends," and many others. One article deals with various kinds of building cost indexes. Some are tabular and others are in chart form. The indexes vary with the type of building, the location, and the method of computing the index. Ten different indexes are described here. They are the Aberthaw Index, The American Appraisal Company Index, Associated General Contractors Index, Boeckh Index, Fruin-Colnon Index, George A. Fuller Index, Turner Index, Tuttle Index, Consolidated Engineering Company Index, and the Handy Public Utility Index. It is interesting to note the comparison of these indexes, each computed by a different method. Seven of the indexes are placed side by side to show construction costs from 1913 to 1937. *Engineering News-Record, June 30, 1938, p. C-6. $2.20.*

* * *

"CHAIN STORE TRENDS: 1929-37," by Chester A. Moores.

The title describes this article. Here is a short, concise analysis of chain store conditions. The study contrasts chain stores in the peak year of 1929 with the year 1937, which the author calls the peak of our recent recovery cycle. He has chosen principal chains of the most well-known types for study. They include the Great Atlantic & Pacific Tea Co. of America, Safeway, Kroger, First National, Woolworth, Newberry, Kress, Kresge, J. C. Penney Co., W. T. Grant Co., and Walgreen Drug Co. Mr. Moores gives statistics on the volume of sales, number of chains, and percentage of net income over the above period of years. The conclusions he draws from the data are both interesting and instructive. *Freehold, July 1, 1938, p. 9. $0.10.*

New M.A.I.s

W. L. POYNTER, LOS ANGELES, CALIFORNIA. Born, Oregon, Missouri, January, 1878; Division Appraiser, Home Owners' Loan Corporation; member, Arcadia Realty Board; author, lecturer, and teacher; thirty years' experience in the appraisal of real property, including the valuation of homes, office buildings, stores, etc.; licensed real estate broker in the state of California since 1920; qualified in court as an expert on the value of business, industrial, and residential properties, 1933, 1935, 1936, and 1937; experienced in construction activities.

RICHARD S. WILLIS, BOSTON, MASSACHUSETTS. Born, New Bedford, Massachusetts, June, 1901; Assistant Real Estate Officer, New England Mutual Life Insurance Company; member, Investment Committee and Trustee, Eliot Savings Bank, Boston; member, Boston Real Estate Exchange; professional territory covers city of Boston; B.S. degree, Bowdoin College, 1923; eight years' experience in the appraising of real property, including homes, apartments, stores, office buildings, and industrial property.

HARRY A. GILBERT, SOMERVILLE, MASSACHUSETTS. Born, Westfield, Vermont, February, 1888; Past President and Secretary, Middlesex Apartment Owners' Association, Inc.; President and Treasurer, Conlex Apartments, Inc.; President and Treasurer, Lowell Manor, Inc.; President and Treasurer, Lynwood Apartments, Inc.; Trustee and member, Board of Investment, Boston Penny Savings Bank; Corporator, Cambridgeport Savings Bank; Director, Massachusetts Real Estate Exchange; Director, Peoples' $25 Tax Limitation Committee, Inc., Boston; active suburban member, Boston Real Estate Exchange; professional territory covers Greater Boston; more than seventeen years' real estate experience in the Greater Boston area, including selling, leasing, financing, appraising, and management; valuation experience includes the appraising of apartments, industrial property, office buildings, single-family homes, banks, store property, farms, garages, etc.

LOUIS C. ANDREWS, ANN ARBOR, MICHIGAN. Born, Ann Arbor, Michigan, January, 1892; Assistant Vice President in charge of the Real Estate Department and Loans, Ann Arbor Trust Company; broker member, Ann Arbor Real Estate Board; professional territory covers Washtenaw County, Michigan; graduate, University of Michigan, 1917; real estate broker, 1921-29; licensed broker, state of Michigan, 1921 to date; qualified in court as an expert on the value of various kinds of real estate; appraised for the University of Michigan in the acquisition of land for expansion purposes; member, Appraisal Committee, Ann Arbor Real Estate Board from time to time during the past seventeen years.

EDWARD M. COUPER, ANN ARBOR, MICHIGAN. Born, Azalia, Michigan, October, 1902; broker member, Ann Arbor Real Estate Board; professional territory covers Washtenaw County, Michigan; majored in mathematics and economics during a three-and-one-half-year course at the University of Michigan; ten years' experience in the appraisal of real property, including valuation of homes, apartments, stores, industrial property, and special purpose property; attended appraisal classes in 1936 and 1937 presented by the Detroit Real Estate Board; licensed real estate broker; qualified in court as an expert on the value of residential property since 1932; appraised for the American Life Insurance Company, Ann Arbor Trust Company, and Huron Valley Building & Savings Association; two years' experience as property manager; nine years' experience in residential sales.

JOHN P. GLOECKNER, ELIZABETH, NEW JERSEY. Born, October, 1906, Newark, New Jersey; Acting Supervisor, Mortgage Loan and Real Estate Department, The Equitable Life Assurance Society of the United States; Director, Victory Building & Loan Association, Elizabeth, New Jersey; Director, E. A. Leach & Company; member, Elizabeth Real Estate Board; professional territory covers New Jersey and eastern Pennsylvania; former officer and director, Wren Bond & Mortgage Corporation; former officer and director, Mortgage Bankers Guaranty Company; former officer, Etherow Estates, Inc.; former officer and director, Leach & Co., Inc.; fifteen years' experience in the appraising of real property, including the valuation of homes, apartments, stores, office buildings, and hotels; licensed real estate broker in the state of New Jersey from 1925 to date; experienced in the construction and selling of residential housing units.

GEORGE STANLEY POTTER, NEW YORK, NEW YORK. Born, Camden, New Jersey, December, 1892; member, Manhattan Chapter, National Association of Real Estate Boards; affiliated with Cross & Brown Company as real estate appraiser; professional territory covers Greater New York City and adjoining counties in New York and New Jersey; attended University of Pennsylvania, Wharton School, 1912-1913,

real estate course, also real estate courses at Temple University, 1913-1914, Y.M.C.A., New York City, and Columbia University; twenty-one years' experience in the appraisal of real property, including homes, apartments, stores, office buildings, industrial property, vacant land, hotels, gas stations, theatres, synagogues, country clubs, and other types of real estate; licensed real estate broker in the state of New York since 1924; qualified in court on the value of office buildings and apartment houses; experienced in mortgage loan and residential sales.

S. L. SEEMANN, PITTSBURGH, PENNSYLVANIA. Born, Pittsburgh, Pennsylvania, June, 1892; employed in the Real Estate Department, Fidelity Trust Company; member, Board of Governors and Corporate Secretary, Pittsburgh Real Estate Board; professional territory covers Pittsburgh and Allegheny County; twenty years' experience in the valuation of real property, including homes, apartments, stores, office buildings, industrial property, and numerous special purpose properties; licensed real estate broker in the state of Pennsylvania; experienced in residential sales work.

OGDEN JOHNSON, SEATTLE, WASHINGTON. Born, San Antonio, Texas, January, 1900; Mortgage Loan and Real Estate Supervisor, The Equitable Life Assurance Society of the United States; active member, Seattle Real Estate Board; professional territory covers Washington, Oregon, and western Idaho; graduate, Oregon Institute of Technology; attended Columbia University; graduate, University of Oregon with Bachelor of Law degree; admitted to Oregon State Bar, 1924; member, Educational Committee, Seattle Real Estate Board, 1938; teacher and lecturer; fifteen years' experience in the appraisal of real property, including the valuation of homes, apartments, stores, office buildings, garages, and special purpose properties; appraised for the Acacia Mutual Life Association, Washington, D. C., the Northern Life Insurance Company, Seattle, Washington, New World Life Insurance Company, Seattle, Washington, The Equitable Life Assurance Society of the United States, and Title & Trust Company, Portland, Oregon; experienced in building and construction and residential sales work.

ROY F. TAYLOR, SEATTLE, WASHINGTON. Born, Rockport, Indiana, March, 1895; Vice President and Manager, Mortgage Loan Department, Seattle Trust and Savings Bank; Trustee, Central Housing Information Bureau; Member, Board of Governors, Washington Athletic Club; Past President, Seattle Mortgage Bankers Association; President, Three Tree Point Club; member, Seattle Real Estate Board; professional territory covers Seattle, Tacoma, Bellingham, Yakima, and Wenatchee; author and lecturer; graduate, School of Business, University of Washington, with Bachelor of Business Administration degree; fifteen years' experience in appraising of real property, including the valuation of all types of real estate typically found in metropolitan areas; appraised for the Metropolitan Life Insurance Company and the Seattle Trust & Savings Bank.

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(See pages 292 to 297, Roster of Members, for addresses.)

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John B. Green, St. Petersburg, Fla.
Philip W. Kniskern, Philadelphia, Pa.
Maurice R. Massey, Philadelphia, Pa.
E. L. Ostendorf, Cleveland, O.
R. W. Patton, San Antonio, Tex.
Maurice F. Reidy, Worcester, Mass.
George L. Schmutz, Los Angeles, Calif.
Lewis C. Sholes, Omaha, Neb.

Special Committees

COMMITTEE TO NOMINATE GOVERNING COUNCILLORS

E. L. Ostendorf, Cleveland, O., *Chairman*
William W. Chalmers, Camden, N. J.
Mark Cheesman, Sacramento, Calif.
Norman L. Newhall, Minneapolis, Minn.
Edmund T. Paterson, Detroit, Mich.

COMMITTEE TO NOMINATE OFFICERS

Maurice F. Reidy, Worcester, Mass., *Chairman*
Newton C. Farr, Chicago, Ill.
Lewis C. Sholes, Omaha, Neb.

TAX PROCEDURE COMMITTEE

Herman O. Walther, Chicago, Ill., *Chairman*
Graham Aldis, Chicago, Ill.
Bracton Goldstone, New York, N. Y.
John A. Linnett, Newark, N. J.
Ernest H. Lyons, Chicago, Ill.
Cuthbert E. Reeves, Buffalo, N. Y.
Ivan A. Thorson, Los Angeles, Calif.

ROSTER OF MEMBERS

(Figures in parenthesis following names indicate the Certificate Number issued to each Member and the order of election.)

ALABAMA

Birmingham
John D. Chichester (228) .....708 Jackson Bldg.
Frank B. Clark (261) .....408 N. 21st St.
Hill Ferguson (242).....221 N. 21st St.
Harold M. Henderson (215).....2115 First Ave.

ARIZONA

Phoenix
Leonard M. Cowley (523).....320 Professional Bldg.

ARKANSAS

Little Rock
Lawrence Witherspoon (531).....Box 1031

CALIFORNIA

Eagle Rock
Cloice D. Carll (410) .....5376 Vincent Ave.

Glendale
Peter Hanson (11) .....221 Arden Ave.

Long Beach
J. Mortimer Clark (50).....
.....Apt. 611, The St. Regis, 1030 E. Ocean Ave.
J. C. Hoffman (71).....807 F. & M. Bank Bldg.
A. G. Maspero (51).....409 Security Bldg.
T. F. Merrick (27) .....Heartwell Bldg.

Los Angeles
Raymond F. Ahern (424).....1939 N. Hobart Blvd.
George H. Coffin, Jr. (216)...408 Hollywood Security Bldg.
Ayers J. duBois (107).....7079 Hollywood Blvd.
C. Dean Glover (67).....5908 Hollywood Blvd.
W. G. Harris (430).....639 South Spring St.
Arthur L. Layden (104).....437 N. Windsor Blvd.
Nathan Libott (84).....6253 Hollywood Blvd.
Stanley L. McMichael (25).6335 Yucca at Ivar, Hollywood
Norman B. Plummer (447).....1609 Ellsmere Ave.
W. L. Poynter (651).....231 R. A. Rowan Bldg.
Thurston H. Ross (427).....3465 Knollcrest Ave.
John W. Salmon (208).....2912 Brighton Ave.
D. D. Sayer, Jr. (278).....4100 E. Ninth St.
George L. Schmutz (192).....901 W. Bourne Dr.
Charles B. Shattuck (110).....2510 S. Vermont Ave.
Ivan A. Thorson (199).....500 Corporation Bldg.
Fred E. Vincent (212).....3440 Winslow Drive
John A. Westrom (586).....2148 W. 83rd St.
Richard C. Willis (321).....446 S. Van Ness St.

Oakland
Z. E. Bells (587).....1736 Franklin St.
F. D. Courneen (588).....1515 Financial Center Bldg.
Walter N. Gabriel (589).....1447 Franklin St.
W. S. Guilford (46).Athens Athletic Club, 12th & Clay Sts.
Charles G. Gwynn (590).....420—15th St.
Harold W. Jewett (527).....1819 Franklin St.
Ralph A. Knapp (591).....373—17th St.
William Bailie Kyle (592).....4514 E. 14th St.
James G. Stafford (54).....5820 Presley Way

Pasadena
Louis M. Pratt (411) .....164 N. Hudson Ave.

Sacramento
Mark Cheesman (189) .....2964 Govan Way
A. J. Delano (126).....809 J St.
Thomas G. Mapel (367).....1010 Eighth St.

San Diego
Lottie L. Crawford (568).....923 Seventh Ave.
Victor R. Lundy (532).....923 Seventh Ave.

San Francisco
Harold K. Crane (628).....155 Montgomery St.
Edward C. Dee (593).....168 Sutter St.
M. L. Friedlander (594).....168 Sutter St.
F. Burt Hulting (595).....235 Montgomery St.
Edwin Elwood Lunstedt (596).....80 Post St.
Dwight L. Merriman (597).....2901 Russ Bldg.
George I. Noyes (295).....821 Market St.
Fred E. Palmer (629).....41 Sutter St.
Clayton B. Turner (630).....315 Montgomery St.
Edwin G. Wendland (342).....6626 Fulton St.
J. Arthur Younger (311).....654 Market St.

San Gabriel
Frank C. Wood, Jr. (326).....420 Segovia Ave.

South Gate
Louis R. Ardouin (205).....2931 Willow Place

Wilmington
Thomas Francis Mason (151).....Box 122

COLORADO

Denver
Arthur D. Wall (519).....813 Majestic Bldg.

CONNECTICUT

Darien
G. LeRoy Kemp (533).....179 Boston Post Road

Forestville
Thomas N. Ryan (554).....Pleasant Ave.

Greenwich
William MacRossie (598).....90 West Putnam Ave.

Hartford
John A. Caulkins (631).....327 Trumbull St.
Joseph P. Kennedy (24).....720 Main St.
Aubrey Maddock (507).....50 State St.
H. Martin Tenney (534).....140 Garden St.

New Britain
William G. Dunn (535).....272 Main St.

New Haven
George B. Horan (275).....151 Court St.
Wm. M. Hotchkiss (436).....205 Church St.
Charles T. Lincoln (265).....746 Chapel St.

Stamford
Patrick Henry Clark (599).....322 Main St.
Richard W. Fitch (231).....292 Main St.

Waterbury
John M. Hutchinson (500).....195 North Main St.

DISTRICT OF COLUMBIA

Washington
Harold E. Doyle (82).....738 15th St., N. W.
Joseph A. Herbert, Jr. (69).....515 E. Capitol St.
A. C. Houghton (72).....909 15th St., N. W.
Morton J. Luchs (178).....1505 H St., N. W.
F. Eliot Middleton (280).....205 Investment Bldg.
Charles H. Tompkins (337).....1630 Connecticut Ave.
Curtis Walker (196).....Tower Bldg.

Members in Government Service:
Frederick M. Babcock (435).....
.....Federal Housing Administration
Wm. D. Burkheimer (309).....
.....(FHA) 2726 Connecticut Ave., N. W.
Fred L. Chapman (411).Federal Housing Administration
Warren S. Dean (313).....(HOLC) 1619 R St.
Leonard Downie (296).....HOLC Bldg.
Ayers J. duBois (107)....Federal Housing Administration
J. W. Graham (83).....(FHA) Vermont and K Sts.
Isidoro Quintana (78)..Federal Housing Administration
John J. Savage (536).....Room 626, F.H.A. Bldg.
Jesse L. Winebrinier (600).....Room 622, F.H.A. Bldg.

FLORIDA

Fort Myers
Harry J. Wood (187).....1112 First St.

Jacksonville
V. M. Covington (48).....1316 Graham Bldg.
Louis R. Fendig (44).....28 Buckman Bldg.
J. Alvin Register (4).....114 Graham Bldg.
Bainbridge Richardson (59).....117 W. Forsyth St.
Walter D. Shelly (217).....414 Greenleaf Bldg.
L. K. Tucker, Jr. (150).....319 W. Forsyth St.

Lakeland
Ernest Stephen Allsopp (517).....P. O. Box 911
John L. Wright (243).....117 S. Tennessee Ave.

Miami
Hollis Bush (98).....P. O. Box 1089
Kenneth S. Keyes (115).....19 W. Flagler St.
Adrian McCune (74).....1215 Security Bldg.
D. Earl Wilson (80).....1219 Security Bldg.

Orlando
George F. Brass (160)....Box 2014
Harold V. Condict (161)....Box 1052
C. W. Rex (42)....Box 293
J. C. Stewart (166)....112 N. Orange Ave.

Sarasota
Fred L. Palmer (127)....482 Main St.

St. Petersburg
John B. Green (308)....11 Fourth St., N.

Tampa
Charles P. Glover (139)....502 Citrus Exchange Bldg.
L. F. Pallardy (632)....718 Stovall Office Bldg.

Vero Beach
Frank R. Jewett (143)....P. O. Box Q

West Palm Beach
Frank J. Anderson (223)....611 Harvey Bldg.

Winter Park
Leonard C. Smith (440)....100 E. Park Ave., S.

GEORGIA

Atlanta
Robert R. Otis (256)....15 Auburn Ave.
Geo. P. Williams (387)....Regional Office, H.O.L.C.

TERRITORY OF HAWAII

Honolulu
Stanley Livingston (644)....89 S. King St.
Charles J. Pietsch (417)....927 Fort St.

ILLINOIS

Chicago
Graham Aldis (365)....53 W. Jackson Blvd.
Morris B. Ashton (585)....201 N. Wells St.
Louis B. Beardslee (405)....100 N. LaSalle St.
George Becker (518)....11 S. LaSalle St.
Kenneth Calhoun Brown (210)....110 S. Dearborn St.
O. P. Curran, Jr. (569)....4545 Broadway
Harry S. Cutmore (194)....1411 First Nat. Bk. Bldg.
Dominick Dunn (370)....1330 Morse Ave.
Newton C. Farr (400)....140 S. Dearborn St.
Fred F. Gardner (530)....134 S. LaSalle St.
Harry Goldstine (350)....134 N. LaSalle St.
Arthur B. Hall (403)....407 S. Dearborn St.
John P. Hooker (52)....140 S. Dearborn St.
A. K. Hornof (173)....1411 First Nat. Bk. Bldg.
Ward T. Huston (209)....110 S. Dearborn St.
Isaac Keim (324)....2526 S. Wabash Ave.
Arthur Kruggel (341)....4865 Broadway
Walter R. Kuehnle (124)....140 S. Dearborn St.
J. Alton Lauren (442)....22 W. Monroe St.
Mark Levy (9)....22 W. Monroe St.
Paul C. Loeber (399)....111 W. Washington St.
Ernest H. Lyons (195)....120 S. LaSalle St.
William C. McLennan (414)....6675 Northwest Highway
Francis E. Manierre (402)....5 S. Wabash Ave.
Orlo O. Montague (514)....1019 First Nat. Bk. Bldg.
David L. Montonna (416)....Daily News Bldg.
Donald T. Morrison (382)....100 N. LaSalle St.
William E. Mosby (297)....8032 Cottage Grove Ave.
Hyde W. Perce (406)....40 N. Dearborn St.
Lester W. Porter (407)....231 S. LaSalle St.
Geo. R. Quin (191)....36 S. State St.
Leonard James Robinson (601)....7159 Caldwell Ave.
Stanley Roe (624)....22 W. Monroe St.
Gilbert H. Scribner (401)....First Nat. Bk. Bldg.
Henry George Slavik (301)....10 S. LaSalle St.
Frank M. Stanley (633)....9117 Commercial Ave., S.
Percy E. Wagner (318)....F.H.A., 134 N. LaSalle St.
Herman O. Walther (363)....130 S. LaSalle St.
J. Soule Warterfield (120)....8 S. Dearborn St.
Albert H. Wetten (408)....141 W. Jackson Blvd.

Galesburg
Ralph V. Field (168)....203 Bk. of Galesburg Bldg.

Joliet
William W. Mollan (288)....405 D'Arcy Bldg.

Litchfield
W. H. Todt (645)....114 W. Hyder St.

Peoria
James H. Finnegan (428)....415 Peoria Life Bldg.

Urbana
David Z. Field (646)....807 N. Coler—P. O. Bldg.

Waukegan
Leo Dailey (388)....217 Washington St.
Oscar Soderquist (125)....22 Maple Ave.

INDIANA

East Chicago
Leonard C. Smith (440)....4534 Indianapolis Blvd.

Fort Wayne
Claude L. Baker (129)....R. F. D., No. 2

Hammond
Samuel C. Ennis (203)....First Trust Bldg.

Indianapolis
George A. Kuhn (35)....706 Guaranty Bldg.
Frank B. McKibbin (96)....1154 Consolidated Bldg.
John W. Roberts (448)....428 Illinois Bldg.

South Bend
Richard A. Muessel (537)....205 Income Bldg.

IOWA

Cedar Rapids
John J. Wagner (266)....408 American Trust Bldg.

Des Moines
Arthur S. Kirk (188)....900 Grand Ave.

Sioux City
Willard L. Frost (21)....Security Bank Bldg.

KANSAS

Hutchinson
J. C. McNaghten (116)....201 First Nat. Bk. Bldg.

Topeka
Harold Cone (602)....1620 W. 15th St.
David Neiswanger (426)....115 W. Sixth Ave.
Ralph D. Nixon (555)....3012 Somers Court

KENTUCKY

Louisville
L. Sidney Jenkins (334)..Care of Louisville Trust Company
Paul F. Semonin, Sr. (359)....321 Starks Bldg.

LOUISIANA

New Orleans
Max J. Derbes (560)....823 Perdido St.
E. Holland Johnson (558)....811 Perdido St.
J. Burrows Johnson (559)....339 Carondelet St.

Shreveport
T. S. Neal (224)....330 Ricou-Brewster Bldg.
R. S. Whitten (351)....210 Milam St.

MARYLAND

Baltimore
Oregon Milton Dennis (132)....211 New Amsterdam Bldg.
W. E. Ferguson (47)....100 E. Pleasant St.
Harry E. Gilbert (18)....2 E. Lexington St.
Albert C. Hofrichter (162)....2 E. Lexington St.
John E. McGovern (316)....H.O.L.C., Equitable Bldg.
Harry U. Riepe, Jr. (570)....28 E. Fayette St.
Chas. H. Steffey (88)....336 N. Charles St.
Carroll Wright (314)....Baltimore Trust Bldg.

MASSACHUSETTS

Boston
W. H. Ballard (41)....45 Milk St.
Philip E. Bennett (603)....40 Water St.
Arthur B. Brooks (509)....40 Central St.
Edwin Deering Brooks (510)....18 Tremont St.
Edward F. Cassell (122)....18 Tremont St.
Walter Channing (571)....50 Congress St.
George L. DeBlois (505)....11 Pemberton Sq.
Norman W. Kenny (10)....32 Devonshire St.
John C. Kiley (397)....45 Bromfield St.
Arthur N. Maddison (504)....11 Pemberton Sq.
William F. Morrissey (627)....303 City Hall
Robert C. Nordblom (336)....18 Oliver St.
George S. Parker (502)....87 Milk St.
Stephen W. Sleeper (508)....31 Milk St.
Robert S. Wayland (506)....10 State St.
Parker Webb (538)....24 Milk St.
Richard S. Willis (652)....87 Milk St.

Brockton
Charles H. McKenney, Jr. (423)....106 Main St.

Fall River
J. Frederick Beckett (167).....49 Purchase St.
Myer Markell (165).....160 Bank St
Everett N. Slade (53).....57 N. Main St.

Lowell
John C. Percival (233).....36 John St.

Somerville
Harry A. Gilbert (650).....381 Broadway

Springfield
Henry M. Clark (287).....100 Broadway
Bion T. Wheeler (339).....1562 Main St.

Worcester
Francis S. Bailey (524).....2 Foster St.
F. Everett Cole (556).....5 Pleasant St.
Charles A. Kabley (501).....340 Main St.
Maurice F. Reidy (8).....2 Foster St.

MICHIGAN

Ann Arbor
Louis C. Andrews (653).....Ann Arbor Tr Bldg.
Edward M. Couper (654).....204 State Savings Bk. Bldg.

Detroit
Judson Bradway (392).....533 Majestic Bldg.
Matthew Carey (389).....2149 Union Guardian Bldg.
George W. Drennan (358).....617 Penobscot Bldg.
Guy S. Greene (394).....300 Lafayette Bldg.
Donald D. James (539).....700 Penobscot Bldg.
Henry N. Johnson (390).....300 Penobscot Bldg.
Albert D. MacRae (540).....Union Guardian Bldg.
Alfred W. Palmer (312).....1920 Union Guardian Bldg.
Edmund T. Paterson (385).....3050 E. Grand Blvd.
Leonard P. Reaume (393).....2150 Buhl Bldg.
George C. Sexauer (395).....2150 Buhl Bldg.
William W. Tanney (434).....9061 W. Outer Drive
Clarence S. Vaughn (422)..2103 First National Bank Bldg.
Carl S. Wells (391).....2706 Eaton Tower

Flint
Gerald F. Healy (604).....611 Genesee Bank Bldg.

Grand Rapids
Issac R. Blandford (234).....105 Federal Square Bldg.
Leon T. Closterhouse (247).....Central Bk.
John Garfield Emery (304).....400 Central Bank Bldg.
Harry J. Fuller (235).....The Michigan Trust Co.
Walter S. Palmer (193).....104 Federal Square Bldg.
Arent Van Stensel (248)...1006 G. R. Savings Bank Bldg.
Charles H. Warden (229).....535 Michigan Trust Bldg.

Jackson
Henry H. Lammers (557).....508 Dwight Bldg.

Lansing
Edward G. Hacker (291).....221½ W. Washtenaw St.

Pontiac
Paul A. Kern (134).....31 Oakland Ave.

MINNESOTA

Duluth
Richard W. Northrup (379).....600 Torrey Bldg.

Minneapolis
Norman L. Newhall (32).....519 Marquette Ave.
Edwin L. Somerville (30).....519 Metropolitan Bank Bldg.
J. Frederick Sutherland (331).....131 S. Seventh St.

MISSISSIPPI

Jackson
J. O. Manning (299).....3012 N. State St.

MISSOURI

Clayton
Gunther Meier (319).....18 N. Meramec

Joplin
Rolla E. Stephens (264).....711 Virginia Ave.

Kansas City
George M. Bliss (360).....17 E. Tenth St.
C. F. Curry (345).....921 Baltimore Ave.
Herbert B. Patt (553).....417 R. A. Long Bldg.
E. F. Pierson (289).....311 Commerce Bldg.

St. Louis
W. C. Bernard (91).....412 City Hall
William W. Butts (93).....410 Wainwright Bldg.
Herbert O. Byrd (302).....818 Chestnut St.
Charles J. Daly (94).....801 Chestnut St.
Otto J. Dickmann (225).....804 Chestnut St.
Chester A. Dougherty (249).....109 N. Seventh St.
J. Gregory Driscoll (528).....1501 Locust St.
John H. Farish (201).....713 Chestnut St.
Grover Godwin (418).....1796 Arcade Bldg.
Joseph W. Hannauer (15).....811 Chestnut St.
Alfred B. Kissack (525).....915 Olive St.
Curt C. Mack (449).....Federal Housing Administration
Monroe H. Rodemyer (218).....109 N. Eighth St.
N. S. Wood (131).....709 Chestnut St.

NEBRASKA

Lincoln
C. C. Kimball (381).....Stuart Bldg.

Omaha
Lewis C. Sholes (23).....720 Farnam Bldg.
Clinton B. Stuht (33).....Aquila Court Bldg.

NEW JERSEY

Atlantic City
Maurice A. Kelley (325).....20 S. Tennessee Ave.

Butler
Frank B. Fay, Jr. (171).....Fayson Lake

Camden
Ralph D. Baker (60).....924 Broadway
William W. Chalmers (63).....645 Market St.
J. William Markeim (86).....645 Market St.
Abraham J. Rosenfeld (213).....300 Broadway
Leon E. Todd (340).....2623 Westfield Ave.
Philip Zinman (95).....643 Market St.

East Orange
Frank H. Taylor (6).....520 Main St.
Harry A. Taylor (108).....520 Main St.

Elizabeth
John P. Gloeckner (655).....1143 E. Jersey St.
John K. Leeds (99).....286 N. Broad St.
B. B. Miller (58).....215 Broad St.
Burton Thompson (43).....18 W. Jersey
Max Tieger (112).....207 Broad St.

Jersey City
Percy A. Gaddis (22).....30 Journal Square Bldg.
D. E. C. Somers (175).....700 Bergen Ave.
R. E. Thompson (419).....Centl. R. R. of N. J. Term.

Linden
John Fedor (65).....540 S. Wood Ave.

Maplewood
Gilbert N. Swett (561).....Depot Plaza

Newark
Murray Apfelbaum (38).....17 William St.
John J. Berry (56).....982 Broad St.
George E. Dugan (236).....18 Washington Place
Charles F. Evans (572).....782 S. 19th St.
Jos. L. Feibleman (66).....17 Academy St.
George Goldstein (413).....972 Broad St.
Franklin Hannoch (49).....14 Park Place
Louis Herman (70).....60 Park Place
Charles Frederick Kraemer (366).....776 Broad St.
Rudolph Kruger (516).....11 Hill St.
John A. Linnett (35).....46 Clinton St.
E. J. Maier (75).....187 Market St.
J. Kingsley Powell (77).....744 Broad St.
Joel L. Schlesinger (87).....31 Clinton St.
Harry J. Stevens (200).....478 Central Ave.

New Brunswick
Jas. A. O'Connell (186).....392 George St.

Newton
A. N. Lockwood (433).....17 Main St.

Ocean City
Elmer Jackson Pearl (330).....810 Ocean Ave.

Paterson
Joseph R. Lambert (443).....20-22 Church St.

Perth Amboy
Morris Goldfarb (109).....265 Madison Ave.

Plainfield
William G. McDowell (446).....152 North Ave.

Ridgewood
Frederick A. Tetor (364).....1 E. Ridgewood Ave.
Samuel S. Walstrum (106).....Ridgewood

Rutherford
Charles A. Van Winkle (113).....1 & 2 Station Sq.
Theodore Van Winkle (117).....1 & 2 Station Sq.

NEW MEXICO

Albuquerque
Joseph P. Deasy (377).....635 S. Arno St.

NEW YORK

Buffalo
A. P. Allingham (3).....158 Pearl St.
P. V. Bowen (141).....1006 Ellicott Sq.
Walter W. Cohn (81).....155 Pearl St.
Cuthbert E. Reeves (19).....Liberty Bank Bldg.

Mechanicville
Franz H. Moak (40).....37 N. Main St.

Metropolitan City of New York

Borough of Bronx
Herman A. Acker (279).....318 E. Kingsbridge Rd.
Amedeo Giordano (515).....2488 Grand Concourse
Samuel E. McRickard (292).....400 E. Fordham Rd.

Borough of Brooklyn
Stephen F. Barrera (133).....191 Joralemon St.
George Baur (170).....2609 Clarendon Rd.
Charles D. Behrens (635).....190 Montague St.
Joseph William Catharine (503).....149 Pierrepont St.
James P. Clark (550).....478 Graham Ave.
James B. Fisher (57).....160 Remsen St.
George H. Gray (17).....310 Ashland Pl.
Bernard F. Hogan (29).....451 Fifth Ave.
Arthur J. Horton (183).....6904 Fourth Ave.
George S. Horton (184).....59 Lafayette Ave.
Frank M. McCurdy (39).....158 Remsen St.
James F. Matthews (76).....186 Joralemon St.
M. C. O'Brien (190).....798 Nostrand Ave.
Charles Partridge (92).....897 Flatbush Ave.
Lewis H. Pounds (128).....32 Court St.
R. W. Walden (89).....141 Montague St.
Alfred R. Wittich (649).....99 Pennsylvania Ave.

Borough of Manhattan
Robert H. Armstrong (562).....485 Madison Ave.
Edward J. Crawford (373).....225 Broadway
Dalton Granger De Witt (315).....22 W. 48th St.
Sam W. Florence (206).....2700 Woolworth Bldg.
Howard Geoghegan (512).....51 Chambers St.
A. N. Gitterman (45).....45 E. 49th St.
Bracton Goldstone (68).....10 E. 40th St.
George Grotz, Jr. (573).....346 Broadway
George M. Halk, Jr. (582).....742 Lexington Ave.
Frank D. Hall (159).....393 Seventh Ave.
John R. Hoyt (290).....17 E. 42nd St.
Robert Huntley (214).....67 Liberty St.
S. E. Kazdin (269).....70 Pine St.
William MacRossie (598).....6 E. 46th St.
John J. McCormick (445).....51 Chambers St.
Thomas E. McSherry (636).....51 Chambers St.
Clarence C. Merritt (357).....50 E. 42nd St.
Charles W. Morrison (270).....270 Madison Ave.
James R. Murphy (437).....217 Broadway
Henry Musch, Jr. (157).....330 W. 42nd St., c/o HOLC
Charles A. Nehring (521).....1441 St. Nicholas Ave.
Charles J. Pladwell (542).....522 Fifth Ave.
George Stanley Potter (656).....270 Madison Ave.
Andrew B. Rankin (625).....160 Broadway
Irving I. Rosenbaum (179).....384 Broadway
I. Lincoln Seide (526).....220 Broadway
Maurice R. Spear (543).....225 Fifth Ave.
Eldridge C. Thompson (583).....34 Nassau Street
John C. Tredwell (574).....41 Park Row
Wallace Whittington True (647).....393 Seventh Ave.
David Vogel (868).....150 Broadway

Borough of Queens
Armand Brunswick (327).....90-26 161st St., Jamaica
William F. MacDermott (198)...89-70 162nd St., Jamaica
Axel J. Swenson (272)...41-27 29th St., Long Island City

Nassau County, Long Island
Richard T. Childs (273).....222 Front St., Mineola

Westchester County, New York
Robert A. Anderson (259)....34 E. First St., Mt. Vernon
Stephen L. Angell (220).....30 E. Parkway, Scarsdale
Vernon N. Bailey (322).....175 Main St., White Plains
Edward C. Heald (222).....20 S. Broadway, Yonkers
Edward H. Hufnagel (250)..10 S. Fourth Ave., Mt. Vernon
Harry K. Keller (563).....6 Letitia Road, Tuckahoe
Albert W. Lockyer (294).....Depot Plaza, White Plains
Paul Wegener (90).....144 S. Broadway, Yonkers
Edward M. West (305).....1 Martine Ave., White Plains

Rochester
Warren W. Allen (637).Lincoln-Alliance Bank & Trust Co.
Abraham Berghash (219).....130 Clinton Ave., S.

Schenectady
Wm. Garner Bee (415).....277 State St.

Syracuse
James H. Dawley (333).....121 E. Genesee St.
Edward Eagan (271).....204 Starrett-Syracuse Bldg.

NORTH CAROLINA

Charlotte
S. T. Henderson (20).....P. O. Box 1128

OHIO

Akron
Charles S. Jenkins (564).....659 Schiller Ave.
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